An Exploration of the Impact of International and Domestic Factors on Economic Reform Programmes in Libya 1987-2004

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ABSTRACT

This thesis seeks to explore the changes of the Libyan economy, which began in the mid-1980s. The core of this research is to examine the influence of these changes on the course of the state and the implementation of the economic reform programmes.

The relevant theoretical literature is based upon the relationship between the international and internal factors leading up the economic reform. The globalisation and state power are reviewed. The theory of rentier state and also the discussion of the most relevant aspects of the privatisation process were considered.

The contribution of the thesis is its sustained analysis of the Libyan economic policies and, more importantly, its response to the neglect of the international and domestic influences of the economic reform process particularly in oil states. In addition, the literature on Libya and its structural and economic reform suffers from a lack of theoretically-grounded analysis.

The methodology of this study is based upon combination of both interviews and questionnaires seemed the ideal methods in examining the economic reform and the privatisation programmes. The documentary research was also an important element for this study. In order to identify the determinants of the changes of the Libyan economy and the implementation process, it employs a variety of Libyan official documents and economic data.

In general the study reveals that the relationship and the interaction between the international and domestic factors is extremely vital to understand the economic reform and privatisation programmes in Libya. Despite the significance of the international arena, its impacts are mitigated through the domestic context. Moreover, the previous state policies, the role of the state institutions and the interaction between the state apparatus and the Libyan society are important in understanding the Libyan economy.

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NICs	Newly Industrialising Countries
AMU	Arab Magribi Union
EPSAs	Exploration and Production Sharing Agreements
NOC	National Oil Corporation
ICJ	International Court of Justice
OAU	Organisation of African Unity
AU	The African Union
FCO	Foreign and Commonwealth Office
LPSF	Local Production Sponsorship Fund
RCC	Revolutionary Command Council
NOC	Libyan National Oil Company
ASU	Arab Socialist Union
FCO	Foreign and Commonwealth Office
GPC	General People's Congress
UNDP	Human Development Office
MENA	Middle East North Africa's Countries
SOEs	State Owned Enterprises
LPDSA	Libyan Public Development and Stabilisation Agency
LFC	Libyan Finance Corporation
GAO	General Accounting Office
ILO	International Labour Organization
NASA	National Agricultural Settlement Authority

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CHAPTER ONE INTRODUCTION

1.1 Statement and Rationale of Study

This chapter sets out the nature of this research project, the research questions, the research methods used, the objectives and the importance of this study. The purpose of this chapter is also to provide a preliminary understanding of what is this thesis about and how the text is organised.

Libya is an interesting case to consider. On the one hand, it is to a high degree externally dependent. As a mono-exporter of a raw material, there is no doubt that oil has been and still remains the dynamo of Libyan development, especially by providing a financial surplus to fund government expenditure. Attempts to increase oil exploration and production accelerated as part of the reform programme, the country's economy is also dependent on the rest of the world for trade and transfer of technology.

It was however dependent on external labour and imported food and consumer goods. On the other hand, as a radical nationalist polity, it preaches self-reliance and aims to reduce external constraints to its development. It is obvious that, the natural, demographic and social characteristics led to the creation and development of a group of economic and social conditions distinguishing the Libyan Society and formed the nature of economic activity thereof. The Libyan economy is described as a developing economy with relatively small size. It has characteristics distinguishing it from other developing economies.

I would argue that these characteristics make Libya an important case to examine the consequences of the international political economy and the role of the domestic historical trajectories and socio-political and economic factors in shaping the formulation and implementation of economic policies. This is particularly paramount when dealing with underdeveloped states.

The Libyan case is also revealing in analysing the relationship between structural constraints and choice. On the one hand, structural constraints affecting development are immense. Aside from being a rentier economy with all its distortions, Libya is also an arid country with minimum agricultural potential. On the other hand, ideology and choice are crucial in understanding Libya.

This study however assumes a much more contextualised understanding of choice. Therefore, in Libya's case the choices were made as a response to the problems that arose out of socio-economic and political processes that have been taken place both internationally and domestically, also, these choices were affected by structural characteristics of Libya.

In the mid-1980s Libyan state started announcing various measures to liberalise and reform the domestic economy. Taken together these measures point to a slow but drastic change of direction in Libya's economic policy. In several of his speeches, especially in March of 1987, the Libyan leader stressed the need for reforms, called for an increase in private economic enterprise and criticised state agencies for inefficiency and corruption. In a speech on March 1987, The Libyan leader expressed that "private shops and small businesses should be re-established and individuals should be allowed to own factories in the light industry field. In 1989 the state control over trade ended. In September 1992 Libya passed a law allowing the private sector to engage in economic activity. Moreover, in May 1993, the Libyan leader called for convertible Libyan dinar, foreign investment in Libya and also a local mass tourism industry. Nonetheless, the early 1990s were difficult times for Libya.

The imposition and later tightening of U.N sanctions such as Lockerbie crisis, increasingly strained relations between Libya and the West and the volatile in world oil market put clear constrains on the choices of the Libyan state. Under these difficult circumstances, the economic reform programmes entered into a new stage with the adoption of the privatisation laws. The most important characteristic of this period was the attempt by the state to create a legal environment for the functioning of the private sector. However, the implementation of the privatisation programme has clearly been interrupted, because the Libyan state was uncertain about the international sanctions consequences. Once the sanctions left, Libya has undertaken several measures to be reintegrated into the international community.

Domestically, the Libyan state has reactivated the privatisation programme by allowing the private sector to play a greater role in economic activities and planning to withdraw the state's intervention from several sectors. The Libyan leader propelled the Libyans to implement the privatisation and in the same time criticised the public sector for incompetence and dishonesty. Therefore, the privatisation became the showcase for the Libyan economic reforms.

I would argue here that, although limited in extent and slower compared to the Liberalisation policies that have been adopted in some of Libya's neighbouring states, it can be argued that these announcements obviously pointed to a significant reassessment of many of the earlier policies of the Libyan state;

The 1969 revolution that overthrew the monarchy in Libya brought the free Union Officers led by then Qathafi to power. The new Libyan government embarked on a programme of nationalisation and Libyanisation of the economy. All those policies resulted in the prominent role of the state. Yet during these early years the state at the same time tried to stimulate Libyan entrepreneurship by its policies. By 1973, however, it became obvious that the Libyan leadership was trying to drive the country onto a new course. In that year, the Libyan leader announced the Cultural Revolution and introduced the concept of "People's Power". Most of the economic policies were designed to inhibit the private accumulation of wealth. Rental payments for property were outlawed; all enterprises were required by law to run by the "worker's committees"; and the state took over the responsibility for the importation of goods and control over all foreign exchange.

In 1984 state supermarkets were created and all private commercial transactions became illegal. Against this background the most importance crucial of the shift in state‘s economic policy toward more emphasis on private sector and reform of the public sector is clear.

1.2 Within this context the following key questions are being answered

External, an understanding of the international context is crucial in explaining the formulation and the implementation of economic liberalisation policies. The external has to be specified and broadened, including especially the world economy. Therefore, the first working question is that the external environment has an effect on state actors and different social groups and as such is an integral part of the reform process.

Internal, it is expected that although international factors put constraints and create possibilities for the internal factors to play themselves out, their effects are enhanced through the domestic political economy. Within this context the role of domestic institutions and coalitions in shaping the responses of the state is important.

State, the state is not simply a passive channel through which internal and external forces pass in their interaction. It is an active agent in formulating and implementing economic policy, although not necessarily always autonomous from international and domestic forces the state is acting in relation to society and state action has to be analysed within a specific historical and socioeconomic context.

Agency, it is true that rentier states, as states that do not need to extract from their societies, are much more autonomous and as such may have more leeway in implementing their policies. Yet even their autonomy is limited. This is especially so during a period of falling oil rents. First, their dependence on the world economy limits their capacity to formulate and implement policies. Because of the excessive dependence on external revenue the institutional context within structural adjustment policies operate are lacking in rentier states. Furthermore, although they extract minimally, through their allocative tasks they have established other kinds of complicate patterns of interaction with the society, which is also not a monolithic entity.

Ideology, ideological factors and the role of ideas are significant but they generally need a flourishing environment to become influential. The changes that have been taking place in Libya since the mid-1980's show that the state is ideologically much more flexible than it has been given credit for. When faced with a crisis it tried to cope by utilising a set of policies that are in complete contrast to its ideology. In the same manner, an ideological shift in the international arena provoked a rethinking among some policy makers and de-legitimised certain policies and legitimised others, but only after the country faced important economic difficulties.

1.3 The Objectives of the Study

The major objectives of this research can be summarised as follows:

- This research examines the domestic sources that affected the reform policy of the Libyan state and the interaction of economic, political and ideological variables.
- The purpose of this study is also to focus on the global economy and world polities on the one hand, and the state actors, institutions, earlier state policies and the role of ideology of the Libyan state on the other.
- It explores and examines the determinants of the policy shift that began in mid 1980s.
- The research deals with an analysis of the effects of international pressure-most importantly economic, but also political and ideological. Then continues to discuss how these effects were enhanced because of domestic factors.
- This study also aims to contribute to the understanding of the rentier economy phenomenon and to the theoretical development of the rentier state concept, also, considers the most relevant debate of the privatisation process.

1.4 The Significance of the Study

The significance of this study is derived from the following points:

- It will add to the literature further evidence on the specific characteristics of the effect and the role of ideological, international and internal factors on the economic reform programmes.
- The need for this research comes from a recognition of its absence in Libya, it serves the ultimate goal of economic policies research, namely to improve our understanding of the Libyan economic reform programmes and the privatisation process.
- This research effort seeks to contribute to the lack of scholarly literature on Libya during the initial stages of economic reforms.
- This research is not only important for Libya in particular but has wider ramifications for why adjustment and economic reform choices and recently the privatisation process are adopted by developing countries when confronted with many difficulties to reform their economies.
- The findings of this study may be of use to the Libyan state and policy makers. Therefore, studying and investigating the state of Libyan economic sector and its reform programmes may help us to identify its difficulties and problems, providing an essential step towards solving them and so improving and developing the sector. This would consequently result in the improvement and development of Libyan economy as a whole.

1.5 Methodology and Procedures

This study combines both quantitative and qualitative research methods. In exploring the economic reform and privatisation programme in Libya, the empirical method chosen was survey research and textual analysis.

The survey is based on combination of both interviews and questionnaires seemed the ideal methodological solution, as they could be designed in such a way as to ensure that the one method would complement the weaknesses of the other. Similarly, a disadvantage of one method can prove to be an advantage when its outcomes are used to direct the development of the other instrument. In order to conduct a personal interview regarding the Libyan economic reform policies, the questions were asked relating to the past, current and future policy of the economic reform. But which also require an assessment of developments in economic reform policies during the period of seventeen years (1987 to 2004).

A decision to conduct field research by interviewing Seventeen respondents as a primary research tool served my fieldwork well. By this, I mean that I have been gained an insight into the economic reform programme by which I have achieved good results.

Moreover, the list of questions was piloted by five individuals in Libya and UK with strong links and understanding of the Libyan economy. These included academics at University of Garyouins in Benghazi-Libya. As a result, changes were made based on the responses from the pilot studies, for example questions about the current role of private sector and Libyan financial policies were added. It should be noted that the interviews were conducted in two stages. The first set in September 2002. A second set of interviews was conducted in November 2002 until January 2003, when the majority of the interviews were conducted.

I decided, however, to use questionnaire to particularly discover the difficulties and obstacles that interrupted the progress of the Libyan privatisation programme. The aim of using the questionnaire was to explore the perspectives of a number of officials who work at the Libyan Production Union and the Libyan businessmen association. Thus, I decided to use a questionnaire that would reach several officials simultaneously. Moreover, twenty obstacles have been selected, which had seemingly delayed the implementation of the privatisation programme, of 40 questionnaire forms initially distributed, only 20 were returned.

1.5.1 Document analysis

I implemented both documentary and historical research in order to conceptualise and support my theoretical framework. The documentary research was also necessary as it helped me to establish a conceptual paradigm from which I could manoeuvre and be flexible. Quantitative research often involves scientific numerical data, this research involved subjective realities and interpretations. I also have to interpret data on an ongoing basis and many of my interpretations have had to be revised and revisited. This is often a trait of qualitative research. Initially, the documentary research was an important element for this study. It provided the necessary information for me to develop and gain an insight into it.

The researcher collected the secondary material mainly from a number of policy documents, annual reports from the General People's Committees of the Economic, Planning and different state publications, annual reports from the Central Bank of Libya and general historical studies. In addition, a number of papers presented in updated several conferences, which hold at different institutions in Libya and considering many aspects of the problems of Libyan economy were also collected. All of which contributed towards the establishment of core concepts.

1.6 Setting up the interviews

There are a number of steps were taken to maximize the credibility and the comparability of the interviews. People were contacted by letter, which described the research area (a supervision team letter was included), and requested an interview. Twenty three respondents were chosen mainly from different categories such as the General People's Committee of Economic, General Planning Council, The General People's Committee of Finance and I also interviewed few secretaries of Basic Popular Congresses and a number of Secretaries of EL-Shabiat "Heads of municipalities". In addition, some member of staff at Garyouis University especially in the economic and politics departments were interviewed, a summarised list of interviews questions can be seen in Appendix A.

The letter was sent to all respondents, prior to the interview-taking place. This provided an opportunity for respondents to consider in advance the issues for discussion, and contact the researcher with any queries prior to the interview, and gave them time to collect any secondary data, which they regarded as relevant to the research.

In most cases the interviews were conducted in the respondent's workplace, and the majority were implemented during office hours. However, five interviews took place in external settings (a café, a public house..). Interviews lasted no more than one hour. Also, the duration of the interview was particularly important given the seniority of the intended interviewees and the time pressures upon them. It was felt that one hour was the maximum that could reasonably be asked; any longer would almost certainly have been refused. But much less would have run the risk of not yielding useful information. In general, however, a number of respondents were happy to be interviewed whereas others rejected. Despite numerous attempts to contact them, there was no response, and the researcher was unable to conduct interviews with them.

This may have been due to the respondent's time being limited or they did not wish to be interviewed regarding the sensitivity of the issues, which would be discussed. Although the researcher was prepared to meet respondents outside office hours in three cases interviews were conducted with two respondents at the same time therewithal others just coming to listen or to interrupt the initial interview. This was not as had been initially intended, but was incorporated into the research process.

In several cases it was necessary to explain the concept of the economic reform process at both a theoretical and policy level. This not only involved a rephrasing of questions to adapt to the situation, but also the researcher's subjective understanding of the particular issues was introduced into the interview. The interviewer also gave respondents the space to talk about particular areas of interest. In addition, my questions were not opened ended but were related to the major issues of the economic reform and the questions did not presuppose any yes or no, monosyllabic responses. Therefore, semi-structured or (*Discussion*) within interviews allowed the researcher to ask probing questions whereby I could seek information without necessarily revealing the reason or theme driving the question.

There were, however, several problems faced in the data gathering process, which the researcher already anticipated. The first, the travel to Libya, and the difficulty of having an extension of stay in UK from British Home Office also wait a long time until the researcher received the passport. The second problem, the co-operation of the executives and staff was not ensured merely on a letter from the University of Garyounis and Northumbria University confirming the researcher's status and the fact that data will be handled confidentially.

It was necessary to gain interviewees confident and interest in the research. For this purpose, a long time was spent visiting friends in different places to discover the best way to approach key persons in a majority of the buildings. Friends joined the researcher in his first visits into these places, and introduced him to the people over there.

All of these factors helped to a large extent to build good relations with the people in these institutions (1). The third problem was that the people to be interviewed are always engaged in meetings and other duties either inside the country or abroad. The fourth difficulty is that tape-recording of interviews was impossible, which added to the difficulties of data gathering. Therefore, the information needed to be written up immediately following the interviews and a number of interviews followed up by subsequent discussion.

Finally, a huge amount of data was collected. Sorting the data in this phase was perhaps the most stressful period in the process of my research, given that I had to conduct all the interviews in Arabic, transcribe them in Arabic, translate them into English and analyse them. Also, translation was not an easy matter. Translating word by word was impossible in most cases because had it been done that way, the meaning might have changed. Therefore I had to pursue the meaning of the content, rather than simply performing word-by-word translation.

1.7 The Interviews Process

The issues discussed in the interviews can be summarized as follows:

The first issue asked about the meaning of the reform in general and the Libyan economic reform process in particular. The second question asked about the impact of state intervention on the economic reform stability and what are the forces "factors" leading to the announcement of the reform. The third theme considered the common problems which faced the implementation of economic reform. The fourth subject focused on the privatisation process in Libya and the potential role of the private sector in the economic development process.

1.8 Questionnaire Design and Sampling

As discussed in chapter four, Libyan public sector institutions suffer from chronic financial and economic and managerial problems. Hypothetically speaking, the private sector could be more capable of sorting out these structural problems than the public sector. There have been widespread attempts by the Libyan state to curtail the role of the state in economic development, in part because of the lacklustre performance of public sector enterprises.

From the mid-2002 until 2004, although the Libyan state has taken several steps in order to give the private sector many opportunities to play a greater role in economic activities, many obstacles occurred and delayed the implementation of the privatisation programme.

It was significant for this research to determine the most critical obstacles that interrupted the implementation of the privatisation process in Libya. Hence, the target of using the questionnaire was to understand the perspective of the respondents about the influences of these constrains on the success of Libyan privatisation process.

A special questionnaire was designed to survey a small sample of Libyan businessmen who run the Libyan businessmen association which advocates the privatisation programme. The questionnaire also aimed to survey a number of officials worked in the Libyan production union who are against the privatisation. The purpose of the questionnaire was to provide further insight into the data, which emanated from the respondents. The questions focused specifically on 20 selected obstacles, which had seemingly delayed the implementation of the privatisation programme so far. The analysis of the filed survey and the results are shown in chapter seven. The list of questions of the questionnaire can be seen in appendix B.

1.8.1 Questionnaire Distribution

There are three principal means to distribute/administer a questionnaire (Al-Sabban, 1990; and Cohen and Manion,1994):

- Mailing; This can be sent to individuals or to groups by package post sent to distribute at reception counter. This is expensive if a large number are to be sent out
- Self-administration; This is where the respondent completes the questionnaire in private and anonymously; and
- Group-administration: This is where a number of people discuss the questions together with the compiler who builds a friendly atmosphere.

Each mode of questionnaire administration is used in a particular situation and for a different purpose. After due consideration it was decided that the best method for this situation was to send the questionnaire by post and an official letter from University of Garyounis, Benghazi- Libya was sent by fax to the General Director of the Libyan Production Union and to the Libyan Businessmen Association explaining the purpose of the study and the appreciation of participating for the completing of this study.

The researcher made personal contact with the General Director of each organisation who agreed and was willing to distribute the questionnaires to the relevant people such as heads of several departments and a number of officials by means of the organisation's internal mail, and requested the return of the completed questionnaires in two weeks time. The questionnaires were then sent by the researcher to be distributed through the General Director, who provided a covering letter briefly explaining the purpose and expressing their opinion that this study may benefits for the organisation.

1.8.2 Questionnaire Structure

The survey checklist consisted of two pages, which implied that it would not take long to complete. The first page was a covering letter from the researcher to the participant, identifying himself, and assuring that the responses would be kept in complete confidence and would be used only for the purposes of this study.

Twenty obstacles had been selected, which apparently faced the implementation of the privatisation programme, of 40 questionnaire forms initially distributed, only 20 were returned.

1.8.3 The Statistical Analysis

Methods for analysing the data were those commonly used in social science surveys. First, each variable would be examined for which the responses would be given to two assessment: Yes or No. This simple method enables the researcher to make a simple estimate of respondents' views. The researcher used the Statistical Package for Social Science (SPSS) to facilitate the statistical analysis which can be seen in appendix C.

1.9 The Contribution of the Thesis

An observation of the empirical case of Libya in the 1987-2004 period raises interesting and important theoretical questions which are concerning domestic-international linkages and also the impact of globalisation on processes of domestic "structural, economic and political" change. As such, the thesis contributes to the empirical literature on Libya. The contention is that the more suitable questions regarding Libya's economic reform process cannot be understood nor answered without reference to both international and domestic influences and theoretical insights from the relationship and interaction between the international environment and domestic setting.

Generally, literature on the economic reform in Libya is surprisingly scarce. In the English language there are as far as I know a number of volumes, which deal to some extent with the Libyan political economy in the 1980s/90s.

The most sustained and serious English language account of this period can be found in Dirk Vandewalle book (1998) *Libya Since Independence*, and also in Tim Niblock book (2001) *Pariah States and Sanctions in the Middle East, Iraq, Libya, Sudan* which systematically in "the case of Libya" traces the nature of political and economic change within a framework of the links between international and domestic factors such as Libya's challenge to the Western powers, 1969-1992, Lockerbie and the imposition of U.N. sanctions and their economic-political impact on Libyan economic structure. There have been a number of crucial articles on such subjects and also several edited volumes such as Raymond Hinnebusch and Anoushiravan Ehteshami volume (2002) *The Foreign Policies of Middle East States,* which analytically considered the foreign policy of various Middle East states. Libyan foreign policy, in this volume, has widely been analysed.

Most significantly, there is no example of a sustained analysis of the international and domestic influences on structural and economic reforms particularly in Libya. Apart from scattered references to Libya's foreign policy, which received relatively more attention, this does not serve the purposes of analysing the impact of international and domestic influences on the economic reform programme. This neglect in the study of Libya, and in the more general literature on reform, is surprising given that the study of the relationship between the international and the domestic has become commonplace in the field of political economy.

The first contribution of the thesis, then, is its sustained analysis of the Libyan economic policies and, more importantly, its response to the neglect of the international and domestic influences of the economic reform process. It supplements the Tim Niblock, Raymond Hinnebusch; Anoushiravan Ehteshami and Dirk Vandewall volumes and the literature outlined above on different aspects of Libyan foreign and domestic policies. In addition, the literature on Libya and its structural and economic reform suffers from a lack of theoretically-grounded analysis.

The contribution of the thesis therefore aims to explore the relationship and interaction between the domestic and the international factors, and to some extent, on 'globalisation and state power'. The thesis aims also to contribute to a specific conception of the *nature* of the linkages between international and domestic factors in the present climate of globalisation, in this case through the application of these ideas to Libya. Moreover, the study seeks to contribute to the discussion of the rentier state in terms of the economic development and legitimising of the rentier state. The contribution of the thesis also aims to focus on the most relevant aspects of the privatisation debate that related to the Libyan privatisation programme.

1.10 Difficulties Faced

There is no doubt that the fact of needing to be treated very carefully because it may offend or upset people, hence, confidentiality is important because of the sensitivity of the information. Generally speaking, in the Middle East region and in the Arab Countries in particular when the discussion is about the political issues. As Suleiman (1987) indicates, many Arabs are not accustomed to answering questions put them either in questionnaire form or interview way. Moreover, several types of social, cultural and political constraints are present which contribute to the difficulties of research. First, there is mistrust of outside researchers.

Second, there is the absence of academic freedom in some Arab states. Furthermore, in several Arab countries, securing a permit to conduct the research is often a long, uncertain and complicated process requiring the approval of several ministries. Third, there is also the problem of "sensitive" issues where authorities often refuse to allow research claiming that it constitutes a threat to the security of the state (op.cit). Fourth, the researcher has to deal with the absence of freedom of speech and freedom of expression, which may lead to respondents being afraid to express themselves either in the questionnaire or interview. However, from executive point of view, this study encountered certain unexpected difficulties, the most important of which were:

- The respondents were reluctant to explain to the researcher the most important issues of the economic reform programmes and the difficulties facing of the public enterprises to achieve their goals.
- The survey had to be undertaken in a limited period of time, despite the large number of the sample of the interviewers and questionnaires. This was due to difficulties with British visa, which put pressure on the researcher to work hard to obtain reasonable data in a limited period of time.

- Obtaining and sorting accurate data and information about the different issues and queries raised by the thesis such as; the major reasons for reforming the public sector and also the different numbers and statistics concerning the new projects of privatisation programme. Lack of motivation in the part of the targeted respondents to participate in the study questionnaire, this is due to the issue of privatisation programme in Libya is not too clear to them and emphasising that the private sector is not ready yet to play effective role in the economic development process.

1.11 Structure and Organisation of the Study

This research is divided into eight chapters. The first chapter is an introductory chapter, which states the problem, the objectives, significance and the methodology of the study.

Chapter 2 examines the determinants of the Libyan economy alter that began in the late 1980's. It starts with an analysis of the effects of the strong international pressure- most importantly economic, but also political and ideological and then continues to discuss how these effects were enhanced because of domestic factors.

Chapter 3 is set out a theoretical framework for the research, several explanations such as the external level explanations; the internal level explanations and individual level explanations relevant to understanding how international and internal political economies interact and linked and also the globalisation and state power are reviewed. In order to improve our understanding of the political economy of reform programmes especially in oil/rentier economy, the rentier theory is assessed in terms of the economic development and the legitimacy in the renier countries. Moreover, this chapter focuses on the most relevant of privatisation programme literature, which currently became the showcase for the Libyan economic reform.

Chapter 4 examines the major reasons for change in the economic policies identifying what type of factors leading to the new announcements of the Libyan state. This chapter also explains the timing, the extent and the nature of these proposed policies. This chapter attempts to answer these questions. It begins with analysis of the international context and strong economic, political, and ideological pressures emanating form it. This was followed by the analysis of the domestic situation. Here special emphasis is given to the effects of the state's commercial and development policies that were adopted during the boom years; to Libyan involvement in Chad and military expenditures, and, finally, to the internal tensions within the ruling elite and the domestic opposition to the government policies.
The actual implementation of the new policies and the ways in which they were implemented are examined in the following chapters 5-6-7.

Chapter 5 focused on the first stage of the economic reform programme, in this chapter, almost a year of domestic criticism and consequent self-critique by the state. A reform programme was adopted in 1988. The objectives of this programme were not economic, but also political. Several of these policies, such as the privatisation of small-scale retail trade and services, were to some extent successfully implemented. This chapter explains that other policies such as the law on collective ownership, however, did not produce expected results.

Chapter 6 starts with the discussion of Libya's place in "The New World Order" that started to be shaped in the early 1990s. It goes on to explain the changes that took place in the world oil market and the effects of these changes on Libya. After that there is an argument of the economic reform policies that were adopted during this period: first, attempts for reducing the role of the state in the Libyan economy are explained. Then, the policies that were adopted to privatise parts of the Libyan economy are discussed.

Chapter 7 examines the third stage of economic reforms and begins with the discussion of the dramatic and new changes in the course of Libya's foreign policy, which aimed at bringing about a rapprochement with the Western countries in order to reintegrate it into the international community. Moreover, this chapter discusses the peaceful regional and international role, which Libya endeavours to play and also its new position on Arab-Israeli conflict. Then, we considered Libya's decision to disarm its weapons of mass destruction programme and the response of the Western countries to it. In terms of economic reforms, the reinforcement of privatisation process, the role of the state in the subsequent stage, the transformation of the public sector to the private sector are discussed.

Lastly, Chapter 8 summarises the major themes of the study, discussions and analysis of the problems, and makes some suggestions for further research.

1.12 Conclusion

This chapter has presented the statement and the rational of the study, the key questions, the objectives and the significance of the study. However, this chapter shows methodological instruments on how data were gathered from fieldwork, sample size of the questionnaire and type of statistical analyse that the researcher used have been considered. The reasoning behind the types of research methods chosen has been given, along with how these methods were administered, and subsequently analysed.

From the data analysis obtained from employing both interview and questionnaire techniques it can be determined whether the views of the respondents can be measured as accurately as is possible, bearing in mind that the views expressed would be subjective. The semi-structured interview method was chosen because literary research showed it to be the most appropriate method for this subject. In addition, the documentary research was an important element for this study.

End Notes

(1) Other factors also helped in build confidence and make good relations, one of them was the researcher's job as Assistant lecturer at Garyounis University from the 1996 until 2000.Moreover, having worked as Office-Director of the Secretary of The People's Committee of Health in Benghazi-Libya during 1999 until 2001, also helped in building a useful relations.

Chapter Two The Development of Libyan Economy

2.1 Introduction

Libya's socioeconomic history is a history of extremes. From severe poverty the country climbed to considerable richness in a short time. After independence the viability of Libya was in question and was sustained through external aid and rents. The start of oil production changed the country dramatically. Since then oil has propelled Libya's economy. Contrary to the arguments that see capital-scarcity as the major problem of developing countries, Libya, at present a capital-surplus country, faced new sets of constraints.

Therefore, it is crucial to examine the historical context of Libyan socioeconomic development. To this end the history of political economic transformation can be divided into four periods in term of the changes in the economic policies of the state: The First period, which covers the history of Libya before Oil, discusses Italian rule, independence and the early years of the monarchy. The second period starts with the discovery of oil and examines the rapid transformation of the national economy into one that is totally dependent upon the extraction of a non-renewable raw material and ends with the fall of monarchy. The period after the coup 1969 if further divided into two: The first deals with the early years of new state and its state capitalist policies. The second argues the Jamahiriya period that started in the mid-1970's and reveals the consequent complete state control of the economy.

2.2 Libya Before the Oil: Independence and the Creating of the Monarchy:1951-61

Italian rule in Libya ended in 1943 with the Italian defeat at the close of the Second World War. As a result, the territory that constitutes today's Libya fell under the control of Allied Forces. A British Military Administration had already been established in 1942 in eastern Libya (Cyrenaica) and in 1943 in the western part of the country (Tripolitania). In the meantime, southern Libya (Fezzan) was administration an arm of French colonial government in North Africa. After the war, the issue of what would happen to these territories was on the agenda of the Four Power Commission. Since they could not agree on a suitable mandatory power the case was turned over to the United Nations in 1949 and Libya was accorded independence on December 24, 1951. (1)

The constitution prepared by the U.N. called for a loose federation of three provinces under Emir Mohammed Idris Sanusi as a monarch of the United Kingdom. The federal structure was considered necessary to defuse unresolved conflicts and the problem of regionalism in the country. King Idris was the head of Sanusi religious brotherhood that was established in mid-nineteenth century with zawiyas located throughout Cyrenaica and closely linked to the tribal structure there (2). The tree provinces of Libya had never constituted an independent state before 1951 and, thus, the monarchy, under the head of the Sanusi order, drew together these three socially and geographically different regions.

2.2.1 The Colonial Legacy

The socioeconomic and political effect of the Italian occupation was extremely severe. First of all, as a result of the policy of "settler colonisation" a large amount of land was appropriated to make room for the increasing number of Italian farmers that settled in

Libya. By 1925, in Tripolitania 86,000 hectares of land were in Italian hands whereas Cyrenaica, between 1923 and 1932, 120,790 hectares were expropriated. More important than the amount of land expropriated was the fact that it constituted much of the most productive land in Libya. Although during Italian rule overall agricultural production increased this was at the expense of indigenous peasants and nomads who were dislocated and lost their resources (Metz,2003: 42-45).

Secondly, Italian occupation halted the efforts of the Ottomans for state formation that started in the 19^{th} century and aimed to implement several bureaucratic and military reforms. The military *'riconquista'* of Libya in the 1920s by the new fascist state in Italy destroyed local state institutions, and in return the bureaucracy that the colonial power created in return had no place for the Libyans (Anderson,1986:226; Owen,1961:2).

Because of this lack of local participation and responsibility an "Iatliansed elite" was not created in Libya. But more importantly, there was no stable state apparatus in the country at the time of independence. Another outcome of this lack of local participation was the increase in the role of tribal structure in life of Libyans. Despite the efforts of Italians to destroy the tribal structure, their administrative policies contributed to this phenomenon: "tribes became the only available organisational structure for Libyans since more elaborate and broadly based political systems were destroyed" (op,cit:220-21).

Finally, there was also much Libyan participation in the economy. Very few Libyans were employed by the state colonial organisations, and then generally as construction workers and agricultural labourers. However, the limited private activity was almost exclusively under Italian control. Italian capital did not consider Libya as a favourable investment location. Consequently, no indigenous bourgeoisie emerged, as it did for example in neighbouring Tunisia under French rule. In fact there were two purposes to Italian occupation in Libya: to gain prestige as a European power and to provide land for landless Italian peasants from southern Italy (op, cit: 226). At the end of Italian rule parts of the country were also destroyed in the bitter North African campaigns of World War Two. Consequently, economist Benjamin Higgins, who headed one of the three U.N. technical assistance teams that made study tours in Libya (3), described the situation in the country at the time of independence as follows:

"Indeed Libya's value as a case study is precisely that it provides an example of universal poverty in an extreme form. We need not construct abstract models of an economy where bulk of the people live on a subsistence level, where there are no sources of power and no mineral sources, where agricultural expansion is severely limited by climatic conditions, where capital formation is zero or less, where there is no skilled labour supply, and no indigenous entrepreneurship; when Libya became an independent kingdom under U.N. auspices it fulfilled all these conditions" (Higgins,1957: 319).

2.2.2 After the Independence

At the time of independence Libya was one of the poorest countries in the world with an estimated per capita annual income of 35 dollars. Despite the blows that it had suffered, because of the fact that was nothing else, agriculture remained the basis of the economy: over 70 percent of the labour force was in agriculture and the sector supplied over 60 percent of the GDP. During the early years of the monarchy there was no industrial base.

There was "some agriculture-related processing such as tobacco, olive oil date packing and folk textile production (carpets and blankets) and building material production such as tiles, brick products and limestone block cutting" (Allan,1982:54). Most of which was under Italian control. These small-scale manufacturing establishments employed 15,000- 20,000 people and contributed only to the one-tenth of the GDP (Waddams,1980:24). The chief exports were esparto grass, olive oil and scrap metal collected from the desert battlefields of World War II.

The most important sources of revenue Libya were foreign aid and rents for several major military bases paid by the U.S. and Britain. Towards the end of 1953 Libya concluded a twenty year treaty of friendship and alliance with Britain under which the latter received military bases in exchange for financial and military assistance. In July 1954 Libya and the United States signed an agreement under which the U.S. also obtained military base rights in return for economic aid to Libya (4). Total foreign aid in 1954-55 was about 26 million dollars per year, more than half of the estimated national income (Higgins,1957:231). However, these grants were large only relative to the very low national income. Several factors, such as the lack of natural resources, technical and managerial skills and entrepreneurship, still handicapped the Libyan economy.

To finance economic development two special institutions were created. The first was the Libyan Public Development and Stabilisation Agency LPDSA, which supervised the programs financed by British government. The second, the Libyan Finance Corporation LFC, received subscriptions from the Libyan and foreign governments to make intermediate and long term loans for developments projects, mainly to private enterprise.

2.3 The Discovery of Oil (1957-1969)

It had long been suspected that there was oil in Libya after the country became independent several international oil companies conducted geological surveys. The first well was begun in 1956 in Western Fezzan Zone and oil was first struck in 1957.

Esso (subsequently Exxon) made the first commercial strike in 1959 and by 1960, 65 percent of the land surface of the country had been divided up into 95 concession areas that were being explored by 20 international oil companies (Barker and Mclachlan, 1987:37-38). It however was only after the shipment of the first oil in fall of 1961 that the process of incredible transformation of Libya began.

National income rose from LP. 131 million (5) to LP. 798 million between 1962 and 1968 and GDP at factor cost increased 117 percent, from LP. 504 million to LP. 1095 million from 1965 to 1968 (Table 2.1). On the other hand, per capita GDP rose from 548 dollars to 2,057 dollars from 1963 to 1968, an average annual increase of 55 percent (UNIDO,1976). After 1956 the state's need for direct foreign assistance decreased as the international oil companies began to invest heavily in the country. Finally, in 1962 payments ceased completely, bilateral aid agencies were dissolved and replaced by Libyan Development Council. However, the government continued to receive annual subsidies from Britain and the U.S. in return for military facilities.

Libya became one of the fastest growing economies in the world. A very important aspect of this development was its suddenness; the country "moved from being one of the most impoverished, capital scarce nations of the world.... To a capital surplus nation by the mid-

1960's" (Collins,1974:14). By 1968 Libyan exports of oil (Table 2.2) had risen to seven percent of the world's total, a level of production which had taken Iran and Venezuela 40 and Kuwait 25 years to reach (Birks and Sinclair, 1979:95; Bearman, 1986:32). By 1969 the country became the fifth largest oil exporter in the world. This was not; however, due to the favourable terms Libya received from the international oil companies. In fact, it was quite the opposite.

The country's Petroleum Law, which came into force in 1955, was highly favourable to the oil companies with its flexible price mechanism and generous tax allowances (6). Libya was regarded as " a real oil paradise for the companies" (Terzian,1985: 113).

Table 2.1: Gross Domestic and Gross National Product (1965-1968)

	1965	1966	1967	1968
GDP (at factor cost)	504.8	632.4	761.3	1095.3
Less net income to abroad	81.6	106.9	128.3	228.9
GNP (at factor cost)	423.2	525.5	633.1	866.4
Add indirect taxes	28.1	34.0	35.6	47.8
GNP (at market prices)	450.2	557.4	665.9	908.7

Source: Bank of Libya, Annual Reports.

Table 2.2: Exports of Crude Oil and Refined Products and Oil Revenues

Year	Exports (000 b/d)	Revenues ($Million)
1961	14.4	3
1962	179.5	40
1963	459.9	108
1964	856.4	211
1965	1212.7	351
1966	1499.6	523
1967	1717.3	625
1968	2582.4	1,002
1969	3070.9	1,175
Total	**11,607.5**	**4,038**

Note: The export of refined products started in 1966, following the completion of a refinery by Esso.
Source: Petroleum Economist, OPEC Oil Report, 1979.

2.3.1 The Impacts of Oil

The initial expansion of the Libyan petroleum industry was due to other factors: Libya crude oil is lighter and it has low sulphur content, which makes it highly suitable for refining. Furthermore, Libya is closer to European markets. Finally, when the Suez Canal was closed by the June 1967 Arab-Israel War, forcing tankers from the Persian Gulf to go around the Cape of Good Hoop, the advantages of Libyan petroleum were greatly enhanced. As a result of all these factors Libyan oil production and revenues increased at a considerable pace in the 1960's.

The structure and function of state institutions were transformed by the resulting capital inflows. First of all, federalism started to be cumbersome and proved to be inefficient with the flowing of oil rents. In April 1963, the parliament passed a bill abolishing the federal from of government. After endorsement of the king, the bill effectively established a unitary, monarchical state with a centralised national authority. Provincial boundaries were erased, and ten smaller governorates were created, each headed by a governor appointed by the central government.

Second, through the control of the largest share of the GNP the state achieved a position of pervasive dominance in the economy. To manage the growing revenues from oil exports a major development programme, the First Five Year Plan, which proposed a total investment of LP? 169.1 million, was given drawn up in 1963 (Allan,1983:79). The priority was given to infrastructure projects, such as roads, ports, electricity, housing and public utilities. Although the plan was thought to be over ambitious and the estimated income from oil was considered overoptimistic, the real income from oil during those five years exceeded expectations. By the end of 1967, the allocation of funds for the plan reached LP. 298.2 million because of the addition of new projects to the original plan and the increase in allocations to oil projects (op.cit: 80).

The plan's basic philosophy was to limit the role of the state in the economy to the support of the private sector. The government made a deliberate effort not to become directly involved in economic projects and whenever such involvement was the necessary it was kept to minimum. More important was the establishment of the credit facilities that started to extend credits at low or zero interest rates to the private sector. The state also used other measures such as tax exemption, subsidies and customs duties to encourage and protect private initiative. With the same objective the state sometimes "assigned import quotas in order to encourage local agricultural, or industrial, products and help them compete with imported commodities (Ghanem, 1985A: 220-222).

The sudden revenue flow into the economy together with the state's spending policies had far-reaching socioeconomic and political consequences for Libya. Rapid urbanisation was one of the important characteristics of the oil state. Until the country's petroleum resources began to be exploited, not more than 25 percent of the population lived in the towns. However, the urban population grew from 235,000 to 385,000 between 1954 and 1964 and, as a result, 24.6 percent of the total population was living in the urban areas by mid-1960's (Bearman ,1986:39). As it is often the case, the migration from rural areas to urban social centres put strains on the existing social infrastructure in the urban areas.

According to Bearman (1986:40) "As the housing interior; the migrant population was compelled to settle in tent urban centres, particularly Benghazi and Tripoli". In 1967, it was estimated that the shantytown population was at least 40,000 (7).

The major reason for the rush from the rural to urban areas was the flow of oil rents into the Libyan oil company. In the years of oil era " petroleum exploration was previously untouched by most aspects of modern economic development" (Collins,1974:14). This meant new job opportunities in the rural areas especially because of the fact that exploration is the most labour-intensive stage of the oil industry.

However, in most cases employment in the exploration teams was for a short duration and some tribesmen, who enjoyed higher wages during that time, decided to migrate to urban areas to look for work (op.cit,13-14; Thomas,1961:269). In the meantime, as a result of rapidly increasing money supply, the main urban centres started to go through a commercial boom that created a strong demand for goods and services. Attracted by the new opportunities and expanded range of goods in the urban centres more and more people from the rural areas came to the cities, especially Tripoli and Benghazi, even those who decided to remain in the rural areas, however, opted for pert-time farming diversified their income by working in other sectors and establishing partnerships with urban-based groups (Allan, 1982:16; Bearman,1986: 41).

Parallel to the increase in oil revenues, the agriculture sector witnessed a gradual expansion of state intervention. The most important aspect of this intervention occurred when the state decided to buy some of Italian lands. In July 1963 a National Agricultural Settlement Authority (NASA) was established to undertake the functions of agricultural settlement; the promotion and development of agriculture; increasing agricultural production and the improvement of rural community. In practice, the agency involved in the construction, land clearance and in management aspects of the lands transferred to Libyan ownership, (Mclachlan,1982:15).

The state extended long-term loans to buyers. With the commercial boom the demand for land had risen and the prices of Italian agricultural land soared under the impetus of "growing personal wealth and availability of cheap credit (Allan, 1982:16). In addition to the Italian landowners, the main beneficiaries of land transfer were the urban merchants. Only a tiny fraction of small peasants could get land as few Italian estates were divided into small farms.

Most of others migrated to the urban centres. Aware of the negative effects of rural-urban migration, the state tried to turn the tide through other set of policies. As mentioned above, the First Five year Plan set aside a huge percentage of oil revenues to spend on infrastructure. An important part of this money was used for social and infrastructure development programs such as housing, schools, the transport system, water and sewage systems in rural areas (op.cit:17). This policy was successful to some extent but the conditions that created the pressures for migration largely remained intact. All these developments had important consequences for the agricultural sector (Attiga,1973).

Agriculture was generally negatively affected by the flow of oil revenues. The problems were further aggravated by the state's agrarian policy. Although 17.3 percent of the Five Year Plan's total investment was allocated to agriculture only 12.7 percent of this money was actually spent (Kezeiri,1989:153-154). In fact, during this period the state generally pursued a " benevolent policy towards agriculture, adopting projects on an ad hoc basis" (Mclachlan,1982:14). These projects were drawn up and implemented at tremendous expense. Other state policies such as credits, favoured big estates and, therefore, were inadequate to stem the tide of rural-to-urban migration. In any event, the supply of agricultural products remained limited that Libya started to import more and more food by the end of 1960's (Table 2.3).

Manufacturing and industry were given much less attention under the monarchy. In 1961, after the discovery of oil, Libya's first Ministry of Industry was created and manufacturing got three percent share of the total planned development expenditure in the First Five Year development plan. Actual disbursement of funds to industry, however, was even lower. For the most part the state did not directly invest in this sector; almost 90 percent of manufacturing establishments were private. It did, however, create a Real Estate and Industrial Bank in 1965 to help the private sector with credits Barker (1982:56).

Table 2.3: Food and Total Imports

LD. Million

Year	Food Imports	Total Imports
1963	10.2	85.3
1964	13.4	104.5
1965	16.2	114.4
1966	19.7	144.7
1967	26.3	170.0
1968	27.6	231.3
1969	30.7	241.4

Source: Ministry of Economy and Planning, Annual Foreign Trade Statistical Bulletin, 1963-1970.

As mentioned above, before oil Libya did not have much of an industrial base. That situation continued for the most part after the country started to export oil. Manufacturing efforts were limited primarily to the processing of domestic crops and livestock products and to the handicrafts. Most of these establishments were small-scale and they employed fewer than twenty workers. Ninety percent was located in Benghazi or Tripoli, and 75 to 80 percent of these were owned by Italians (Lenaghan,1989:138).

The only industry that developed rapidly during this period was construction industry. The state's decision to give priority to the establishment of social and economic infrastructure contributed to the expansion of the sector. This rapid expansion coupled with the shortage of manpower and contractors created an upward surge in construction costs and consequently resulted in higher housing prices.

In the meantime the oil industry was becoming the greatest contributor to the GDP. By 1968 the contribution of petroleum products was 60 percent. Libya became a classic example of a dual economy, in which two separate economies, petroleum and non-petroleum, operated side by side. The characteristics of the oil industry is extremely different than many other industries in that it dose not establish any significant linkages with the rest of the economy and the main linkages with the rest of the economy and the main linkages it creates are forward linkages through refining and distribution, the activities that mostly take place outside the oil-producing country.

This also was the situation in Libya. The oil companies, of course, paid royalties and taxes to the state and created a local service industry around them but the employed only limited number of local labour (8), and the few that they employed were mostly skilled or semi-skilled labour. Libya, especially in those early years of its development was lacking skilled manpower, despite the attempts made for spreading educational facilities. As First (1980:151) observes "the technology, the know-how, the organisation necessary for exploitation of this versatile product are highly complicated for a backward economy".

The outcome was that most of the highly skilled work force that the oil industry required had to be imported from abroad. Finally, the oil industry did not play the role of a locomotive industry in terms of creating side industries, because the extraction and the production of oil, the only two stages of oil business that were taking place in Libya, required high technology that was absent and had to be imported from abroad.

Because of its inherent characteristic, therefore, the oil industry, which was main industry in Libya, could not absorb the number of rural migrants it drove off the land. The manufacturing sector could not absorb much labour either. However, at the same time that it lead to the relative squeeze of traded sectors, like agriculture and manufacturing, the oil-led development created an expansion of non-traded sectors in which consequently most of the semi-unskilled Libyan stated to be employed. After oil a large service sector emerged to be employed catering to the needs of oil industry and import sector.

The implementation of development projects, the expansion of the oil industry, and the increase in demand for consumer goods all stimulated demand for imports and created a large import sector. And, finally, the state became the biggest employer, providing jobs for 40,000 out of an active population of 165,000 in 1968 (Vandewalle,1986:30). Benefits like housing allowances to government employees attracted Libyans to government jobs. From 1964-65 onward, the oil industry was no longer the wage leader in the national economy; the state paid the highest available wages (Allan, 1983:165) consequently, the state created hidden unemployment. Because of the inefficient distribution of manpower there were shortages of manpower in some sectors and surplus in government sector. The result was that Libya began importing foreign skilled and unskilled labour.

2.3.2 The End of Monarchy

Increasing oil revenues and the constant rise in money supply did not lead to any considerable increase in the level of local production but rather it created a rise in consumption. The major part of the increase in GDP came from oil, construction, public administration and government of the private sector particularly in the form of real estate and retail trade. By the end of the 1960's the monarchy's achievements did not seem extremely impressive. There were, certainly, modest achievements in some areas, especially in building an infrastructure. This area was given priority and despite the " waste and poor planning... early development in construction set up the basis of Libya's future infrastructure development" (First,1980: 151).

Moreover, the growth rate of the economy in general was quite spectacular. Per capita income also rose sharply from an equivalent of 40 dollars in per-oil days, to over 6,000 dollars in the early 1970's. Understandably the suddenness and the pace of the revenue increase was dizzying. And the state was up against important constraints like lack of skilled and semi-skilled labour and an environment that is hostile to agricultural development.

In fact, far lees success was achieved in agricultural and industrial development and, as a result, the contributions of these sectors to GDP declined during this period. On the other hand, the service sector grew disproportionately. These developments were somewhat expected, since, as the literature on "Dutch Disease" shows, they occur, at least initially, in every oil economy. For most Libyans what became more and more unacceptable was the rising cost of living and the inequalities and the corruption that had become increasingly visible in the country.

With the incorporation of Libya into the world economy as an oil producer and the increase in oil rents the country underwent fundamental socioeconomic transformation. Despite the fact that the oil sector did not directly benefit the rest of economy, its indirect effect coupled by the state policies created the beginnings of a differentiation in Libya society along class lines. Especially in urban areas several families took advantage of the commercial boom. Some of those families also benefited from the state's agricultural policies and invested in land.

A small but active urban labour force as well as a growing middle class could be seen taking shape in the cities. And, finally, there remained a sector of the population untouched by the apparent prosperity of the country. Towards the end of 1960's the economy started to show clear disparities in the distribution of income. The ever increasing money supply created demand for both goods and services.

This process led to increased inflation and unrest among Libyan labour and lower middle classes. While the inequalities between different sectors of the population increased, there was also a widening gap between rural and urban incomes. Ghanem (1985: 223) argues "The cities in the north, mainly Tripoli and Benghazi, were benefiting more from the economic boom than the rest of the country".

Table 2.4: State Revenues, FY 1965-66-FY 1968-69

Items	1965-66	1966-67	1967-68	1968-69
Oil Revenues	83.6	268.5	191.0	279.8
Customs and Excises	20.9	26.0	26.2	27.8
Import Duties	20.4	25.4	24.1	35.3
Others	0.5	0.6	2.1	2.5
Taxes, Licenses and Fees	10.2	12.3	15.9	23.0
Direct Taxes	7.2	8.5	12.0	17.5
Licenses and Fees	3.0	3.8	3.9	5.5
Monopolies	3.0	3.9	3.8	5.0
Public Utilities	5.1	6.7	6.5	7.3
Post and Telecommunications	1.6	2.0	2.3	2.6
Ports and Lights	1.9	3.1	3.2	3.9
Civil Aviation	0.3	0.3	0.2	0.4
Other utilities	1.3	1.3	0.8	0.4
Other Revenues	2.8	4.3	6.1	6.0
Total Domestic Revenues	125.6	321.7	249.5	358.9
Grand Total of revenues	126.0	321.7	249.5	358.9

Source: bank of Libya, Annual Report (1968 /69: 116).

High levels of external capital inflows resulted in an increasing role for the state in the economy (Tables 2.4 and 2.5). This role was generally limited to distributive functions. Increasing oil rents coincided with the initial stages of state building and resulted in the over-development of distributive state institutions; once the windfall revenues started to flow, there was no need to develop extractive and regulatory capacities. The government was basically distributing the oil rents it was receiving from the oil companies. The state institutions that were created were geared towards this end (9).

On the other hand, through its distributive functions the state established links with business mostly through kinship networks and tribal loyalties. The rumours of corruption and profiteering abounded. The talk of corruption and bribery became quite widespread that as early as July 1960 the king issued a letter to all heads of government, federal and provincial, and called their attention to this matter. But no immediate action was taken against those who were responsible (Khadduri,1963:298-300). In fact, the monarchy exhibited a marked preference for delegating authority to locally powerful families while it banned al political parties and trade unions in the country.

Table 2.5: State Expenditure, FY 65-66 – FY 1968-69

Items	1965-66	1966-1967	1967-1968	1968-1969
1. Ordinary Budget:				
Ministry of Defense	7.8	17.3	11.1	14.2
Ministry of Interior	14.8	16.7	25.9	33.2
Ministry of Transportation and Communications	8.4	10.1	10.3	15.7
Ministry of Public Works	3.5	6.0	5.9	7.2
Ministry of Education	19.2	22.6	27.1	44.0
Ministry of Health	6.5	10.2	12.3	13.9
Ministry of Labour and Social Affairs	2.1	4.9	2.6	4.3
Ministry of Agriculture	3.4	4.5	4.5	5.4
Ministry of Industry	0.6	0.4	1.2	1.1
Ministry of Finance	3.1	2.4	2.6	3.4
Ministry of Justice	1.4	1.8	2.2	3.4
Ministry of Housing	-	6.8	8.9	7.4
Other items	12.0	8.9	13.1	14.4
Total	**82.8**	**112.6**	**127.7**	**167.7**
2. Special Allocations:				
Arab Aid	-	-	35.0	n.a
National Defense	-	-	3.7	n.a.
Other Items	-	-	-	n.a.
Total	-	-	38.7	70.9
3. Development Budget:				
Agricultural	7.1	10.0	17.4	14.4
Industry	2.0	4.9	7.4	7.4
Transport and Communication	13.1	9.3	19.6	24.2
Public Works	15.0	16.9	39.4	38.1
Education	5.6	9.1	9.6	13.6
Health	0.8	2.1	5.5	4.9
Labour	3.5	3.3	5.2	1.8
Housing	-	11.6	17.9	18.2
Interior	2.9	9.5	7.4	1.1
Other Items Total	2.4	5.7	9.7	16.7
Total	52.4	82.4	119.7	140.4
Grand Total:	**135.2**	**195.0**	**186.1**	**379.0**

Source: Bank of Libya, Annual Report, 1968-69:117

From the onset the Libyan state and economy were extremely dependent on foreign powers, especially the United States and Britain. Before oil these countries provided financial and technical assistance and skilled manpower to Libya. "This reliance continued after the growth of the oil industry. The monarchy's foreign policy was also quite pro-Western. In the meantime, the brand of Arab nationalism propounded by Egypt's Gamel Abdul Nasser exercised an increasing influence, particularly among the younger generation.

As an outcome the state started to feel the pressures of rising pan-Arabism. In March 1964, the Libyan cabinet and lower house urged early evacuation of British and American air bases. Although little was done about evacuation before the revolution, the government had to at least pretend to be revising the treaties because of a series of student protests in Benghazi and Tripoli" (Collins,1974:15).

Tensions were highest when popular violence broke out at the time of the 1967 Arab-Israeli War. Dock and oil workers (10) as well as student were involved in violent demonstrations, particularly in Benghazi and Tripoli. Although the government finally restored order, it was obvious that the days of monarchy were numbered.

2.4 After The 1969 Revolution

The September 1, 1969 revolution (11) that overthrew the monarchy brought to power the Free Union Officers led by then-captain Muammar Qathafi. Right after the coup a Revolutionary Command Council (R.C.C) was established and the Libyan Arab Republic was proclaimed. A provisional constitution announced in November stated that supreme power would remain in the hands of the R.C.C. Consequently, a largely civilian cabinet was appointed, under close military supervision. In January,1970, the Libyan leader himself became Prime Minister. While the revolution was relatively popular from the start "its leaders....had had little contact with civilian opposition to the monarchy and they enjoyed little organised support among the general populace when they came to power" Anderson (1982:266).

They declared themselves followers of Egyptian President Nasser and took his aims of Arab unity, anti-imperialism, and Arab socialism and made these the aims of their revolution. They also added an explicit political attachment to Islam, which, as Anderson (1982:261) argues, was more of a reflection of the R.C.C's aim of claiming part of monarchy' legitimacy than a sign of religiosity of its members (12).

One of the first acts of the new state was an initiation of a programme of nationalisation and "Libyanisation". This was done within the context of the ideology of achieving "true economic independence". The evacuation of foreign forces were seen as an essential corollary of this ideology. Soon after the revolution the Americans were asked to evacuate their bases as soon as possible, and they did. This was followed by the expulsion of the remaining Italian settlers and the expropriation of their property by the state. However, the local companies that engaged in trade were required to be Libyan and Arabic was restored as the language of government business.

Foreign banks (13) and insurance companies were nationalised. Finally, efforts were made to put an end to corruption. In this respect, Anderson (1986:262) explained that "the upper echelons of civil administration and military apparatus were purged of corrupt politicians and officers, public trials were held, and the wealthiest entrepreneurs found many of their properties expropriated".

The R.C.C announced that they would critically review all projects the monarchy had been implementing and its members publicly declared the nature of their own and their relatives' property to prevent any opportunity for corruption or conflict-of-interest similar to that which had characterised the previous state (Collins,1974:16). The most important initiatives, however, were about the oil industry. Initially, the revolution did not affect oil operations in Libya. It was clear that the new state was planning to pursue a different policy as far as the industry that constituted the main sway of the Libyan economy was concerned. The main aim was to increase state income from oil and use this industry as a support to the national economy.

Accordingly, the first annual report of the Bank of Libya after the revolution stated "the state's role will change from that of a dormant partner and tax collector to that of an active partner who formulates the policy of utilising this vital resource" Bank of Libya (1968/69 :129). In May, 1970 a series of cuts in production levels were introduced to force the posted prices up therefore, breaking the pattern of stable posted prices that had held since 1961. In fact, as opposed to the monarchy which raised revenues through production the cornerstone of its new oil policy.

It was hard to convince oil companies to accept the change. Furthermore, the new state was committed to obtain higher unit price for Libyan oil, which was undervalued in comparison to similar crude exported from other countries, and it prevailed. In addition, new port dues were imposed, oil distribution and marketing of oil products in Libya were nationalised and overseas payments by oil companies to employees and contractors were banned. Consequently, new agreements were negotiated with the oil companies operating in Libya to provide much greater Libyan participation.

The new state's nationalisation campaign started in December 1971, with the nationalisation of the British Petroleum and its share of the Bunker Hunt Sarir field in retaliation for the British government's failure to intervene to prevent Iran from taking possession of three small islands in the Persian Gulf belonging to the United Arab Emirates. By 1973 over 51 foreign oil companies had been nationalised and by 1976, in addition to the loyalty entitlements, the newly-formed Libyan National Oil Company (N.O.C) owned about 65 percent of the crude oil production and exported oil. Libya was also "receiving payment from overseas for the full value of its export sales, whether to third parties or oil companies" (Waddams,1980:304). Similar developments also took place in several other oil-exporting countries. As a consequence O.P.E.C power increased dramatically. Libya played a significant role in this whole process. The new state's leadership role in breaking the power of multinational oil companies legitimised it especially in regional terms.

2.4.1 The Development Plans

The state supplemented its policy of nationalisation and "Libyanisation" with an ambitious plan to develop the economy. The changes in the state economic philosophy became obvious for example the announcement of the Three Year Economic and Social Plan 1970-1972. The plan aimed at shifting the economy from a full dependence on oil sector to one of balanced growth for all sectors. However, the state's involvement in the economy greatly expanded after the revolution. Part of this was a result of the nationalisation and "Libyanisation" policies.

However, there also was a conscious preference for an expanded public sector role in the economy. Furthermore, one of slogans of the new state was "Socialism" and it essentially meant state ownership. Yet the new state was not against the private sector. In fact:

"During the first years of the revolution the public sector co-existed with the private sector, the latter continuing to flourish and benefit significantly from the credit facilities offered by the banks" (Ghanem ,1985:223-255). However the new state made it known from the start that it was the "non-exploitative capitalists" that the state would tolerate and encourage to develop.

In the agricultural sector as well, direct state intervention started with the hope of increasing output and achieving self-sufficiency in food through government-run agricultural projects. The state was also interested in land reform. For example, in 1972 agricultural cooperatives were established. The state gave financial as well as technical aid to those cooperative, and assisted them in marketing the products and the utilising the new agricultural tools more efficiently (Deeb,1985:2). In general the state did not seek to eliminate the private sector from agriculture. It did, however, retain some of the confiscated lands for state farming venture and in 1971 declared all uncultivated land to be state property. On the other hand Glavanis (1982) explained that:

> "In Libya, the agrarian sector has been the recipient of considerable investments from the state, but its overall contribution to national capital has been disproportionate. Agriculture, for example, received ten percent and 14 percent of State investment in the years 1972 and 1978. Respectively for the same years. Admittedly the oil extraordinary contributions originating in the oil sector would tent to distort contributions originating in other sectors. Nevertheless, if we were to remove the oil contribution from national production then agrarian sector's contribution still lags behind the concomitant state investments. However, As state investments have increased agricultural outputs has decreased relative to the other sectors.

This relative decline, it should be pointed out, is in the context of an increase in cultivated area since 1972".

After the 1969 revolution the state's attitude towards the industrial sector changed dramatically. The industrial policy laid down in the plan (Table 2,6) resembled the policies of Egypt and Algeria. The key part of this policy was an intensive effort to build industrial capacity by utilising oil revenues. The industrialisation program had two major aims: the diversification of income sources and import substitution (Lenaghan,1989:122). In 1970 National Public Organisation for industrialisation was established as the major organ for implementing the public sector's industrial development plan.

New industrial projects were established mostly to run directly by the public sector. But there was also private sector participation. However, the relative share of private and public sectors in industry changed during this period "In 1968 private sector investment in manufacturing was valued at LD.4.2 million compared to public capital funding of LD. 0.9 million. Although by 1972 private sector investment had risen to LD.7.8 million, the

Table 2.6: State investment in the development of the Libyan industrial sector 1965-1976

Year	Planned	Actual
1965-66	4.3	2.0
1966-67	5.8	4.7
1967-68	5.3	7.4
1968-69	7.7	5.0
1969-70	7.9	5.4
1970-71	20.9	15.0
1971-72	37.0	29.0
1972-73	68.1	65.1
1973	79.7	67.5
1974	133.7	135.4
1975	129.7	117.6
1976	199.4	152.1

Source: Secretary of Industry, The Achievement of the Revolution in the Industrial Sector 1977.

state in this year pumped LD.11.7 million into industry" (Barker, 1982:57). Again some of this was due to the fact that large-and medium-size industries, owned by foreigners, were taken over by the state. Similarly, the government exercised effective control over water rights and created a large number of state-owned enterprises to oversee Libya's basic infrastructure facilities such as highways, communications, ports, airports, and electric power stations. The national organisation for supply Commodities, a government organisation was set up as the sole importer of certain consumer goods (Lenaghan ,1989:124).

Equality was another principle of post-revolutionary economic policy. The uneven distributive policies were one of the main goals of the new state's criticism of the monarchy period. Most of the members of the R.R.C themselves were junior officers in the Libyan army and came from lower socioeconomic backgrounds. They were from the start quite critical of the business elite, urban notables and their close ties with the governments under monarchy.

The change in the state, to extent stopped the process of formation of a propertied class, leading representatives of which went to exile after the revolution (First,1980:134). The policies of the R.C.C largely aimed at benefiting the middle and lower strata of the Libyan society. Especially small business prospered during the early years. The state provided sometime up to 95 percent of the capital needed to finance indigenous commercial enterprises.

As a consequence of this policy of providing subsidies and giving government contracts to small Libyan firms, Libyan entrepreneurship prospered more than it did during the monarchy, as at time most of this sector was dominated by Italians. Labour also benefited from the policies of the new state. One of the earlier decisions of the R.C.C was the doubling of the minimum wage. In the second year of the revolution workers were given a larger share of the economic profits made by the firms, which employed them. They were made part-owners and became eligible to receive up to one-half of their company's profits (in cash or employee benefits) in enterprises that employed more then ten workers and those annual profits were more than LD. 4,000 (Nelson,1979:133). Their share sometimes exceeded their annual salaries. Free housing was provided for many, while others were given interest-free loans to buy suitable housing. In addition, the Labour law of 1970 provided 48-hour workweek and paid annual holidays. The same law also allowed for one labour union per trade and established procedures for conciliation and arbitration.

In those early years the state was trying to achieve legitimacy and create a power base for itself. The policies that intended to redistribute oil income more equitably were designed to achieve these goals by benefiting the previously disadvantaged sectors of the Libyan society. The small-scale retailer, farmer, and entrepreneur, and Libyans who were at the lower end of income scale particularly profited from state subsidies and policies in health care, housing and education.

Expenditures on housing, health education, transport and communications, electricity and water and public services constituted 67.3 percent of the First Three Plan for 1973-1975. Housing was the single most important item on the budget. EL Fathaly and Palmer

(1980:122) pointed out that "by 1975 for instance, the government announced that 112,552 housing units had been completed, and had either been sold to Libyans, with financial state assistance of up to 90 percent, or else had been distributed free of charge to poor".

Anderson (1982:263), in addition, argued that "by late 1970's, most Libyans had an access to free education, housing, medical care, or transportation. An income study of selected households in Tripoli and Benghazi in the early 1970's indicated the existence of a large urban middle class. It consisted of small businessmen and shopkeepers, professionals, intellectuals and students, and public officials".

After infrastructure, agriculture was the second prominent item in the plan. During the early years of the revolution massive investments were made in irrigation schemes in various parts of the country, notably in the south. Many of the agricultural development projects included land reclamation projects, the construction of dams and surface water control, range management and livestock raising, intensive sprinkler irrigation and the mechanisation of agriculture. The aim was to make Libya self-sufficient in food, especially with respect to cereals and meat.

Moreover, industry sector was given a boost during those years and new plants and factories were set up,. In order to encourage domestic production, many privately-owned small industries, especially those manufacturing plastic, leather and metal goods, were given tax exemption, and did not pay custom duties on imports. By 1977 there were approximately 90 new factories which were being built, or had already begun operating, nearly a third of which were in foodstuffs manufacturing (Deeb,1987: 4). However, Birks and Sinclair (1979:96) argue, "The state was reasonably successful in establishing small scale import substitution industries".

2.4.2 The Announcement of the Popular Revolution

The impacts of some of the policies of the new state were curtailed as consequence of the structural constraints. In the agricultural sector, for instance, the success of many of the projects were limited due to constraints imposed by water shortages and because of the remoteness of the areas where land was being reclaimed. On the other hand, some of the new policies created their own problems whereas in the industrial sector, for example, the attempts at diversification of industrial production meant importing huge amounts of capital goods and raw materials.

Moreover, due to shortage of skilled manpower, and of administrative personnel, labour had to be imported as well. In 1975, 58.1 percent of the managerial and professional manpower, 51.6 percent of the technical and clerical personnel, 27.5 percent of the skilled and semi-skilled, and 41.1 percent of unskilled workers were non-Libyan (Table 2.7). As loge time as the oil rents were coming at an increasing pace Libyan could afford to increase its imports and the number of expatriate workers. Actually, the 1973-1974 oil price hikes reinforced this sense of affordability. Per capita incomes soared from 1,830 dollars in 1970 to over 4,000 dollars in 1975, and Libya's dependence on imported food, skilled expatriate labour and basic necessities increased rapidly throughout the period.

Table 2.7: Occupational Distribution of Migrant Workers, 1973 and 1975

Occupational Category	No. Migrants 1973	No. Migrants 1975	Migrant's Share of all Employment 1975
Professional and Managerial	12,800	16,100	58.1
Technical and Supervisors	8,900	20,400	35.1
Clerical	4,300	6,200	16.5
Skilled and Semi-Skilled	51,100	95,200	27.5
Unskilled	41,300	85,100	41.1
Total	118,400	223,000	32.9

Source: Libyan Arab Jamahiriya 1977, in Birks and Sinclair (1980:163).

The state policy of supporting small-scale Libyan entrepreneurship and creating an indigenous private sector also created some unwanted results. Some businessmen, who received state contracts, turned into subcontractors for foreign businesses and almost completely depended on foreign labour and technicians. Others invested the considerable profits they made through state subsidies abroad. More importantly, most of these entrepreneurs were again from the traditional urban families, whose the new state was trying to undermine (Deeb,1985: 4-15).

Another issue that was discouraging for the Libyan leader was his perception that Libyans did not develop the fervour for revolutionary change that he had anticipated. As early as 1971 the new state had tried to increase popular participation in order to strengthen its base. That year a broad-based political party, modelled after Egypt's Arab Socialist Union, (A.S.U) was created. The aim of the Libyan Arab Socialist Union, it was announced, was to raise political consciousness of Libyans and to increase popular participation. Simultaneously all other political parties were banned and trade unions were incorporated into the A.S.U and strike were forbidden. However, the results were still unsatisfactory for some in the leadership.

By the end of 1973 the A.S.U experiment was abandoned, in the same year, the Libyan leader in his now-famous Zuwara speech launched what he called a "Popular Revolution". Or "Cultural revolution" *al-thawra al-thagafyya* to combat bureaucratic inefficiency and administrative abuse, and to achieve participation in the sub-national government level. It was announced that the revolution would be conducted through " people's committees" (*al-lejan al-sha'abiyya*). All kinds of public organisations and factories had supervised all aspects of social and economic life. The oil sector, however, along with the banking sector and the armed forces, was excluded from the committees' purview due to insistence of some R.C.C members. This was only one example of the friction between the R.C.C members, who seemed to have different opinions as to what direction the country should go (Vandewalle,1986:31).

These concerns were deepened in 1975 when Libyan oil revenues fell considerably for the first time. The tanker market collapse and production cuts as result of its crude overpriced (op.cit:32). Oil exports fell by 49 percent in the first half of 1975 while imports continued the rise. Libya was forced to spend substantial part of its foreign exchange reserves.

2.5 From Republic to Jamahiriya: Complete State Control of the Economy

After the consolidation of power by the Libyan leader, the political and socioeconomic transformation of Libya hastened. A new political structure, composed of "people's congresses" were created to work alongside the "people's committees" which were set up earlier. The centrepiece of this new system was the General People's Congress (*al-mukhtamar al-sha'abea al-amme*) "GPC" which was a national representative body. The new political order took shape when in March 1977 the GPC, at Qathafi's behest, adopted constitutional changes to declare "the authority of people". The council of ministers was replaced by the General People's Committee and Qathafi became the first Secretary-General of the G.P.C. however, in March 1979 he resigned from the post so that he could devote more time to "revolutionary work" Fisher (1992:683).

In the meantime, the official name of the country was changed to the Socialist People's Libyan Arab Jamahiriya. This is emphasised by Vandewalle (1998:83) when he noted that "Economically and politically, the country had been thoroughly transformed by the end of the revolutionary decade (1973-1982): the state institutions had been put directly into hands of the people through system of political congresses and committees, and all private congress –and – committee system closely dovetailed with the ideological and political inclination of the state".

2.5.1 The Recreating of the Economy

The changes in the economy were parallel to the changes in the structure and organisation of the state. The efforts in this area were accelerated after the publication of part two of Qathafi's Green Book (*Kitab al-Akhdar*) titled "The Solution of the Economic Problem: Socialism (14).

The changes aimed at a total restructuring of social and economic relations within Libya:
First of all, it was declared that workers should be partners in their enterprises and should be involved in the decision making process concerning production. In the Green Book Qathafi compared to the relationship between the employer and the wage labourer to a relationship between slave owner and slave Qathafi (1977). "partners, not wage earners"

became the slogan of the state. By the end of 1978 it was reported that 180 state farms, commercial enterprises and factories had been taken over by their employers, and were being administered by the workers and supervised by elected committees, from among the workers (Deeb,1985: 5).

However this policy excluded small enterprises that were run by their owners and members of their families as well as businesses that were based on a particular technical skill such as barbers, carpenters, plumbers, etc (15). In addition, businesses that employed foreign workers also were not affected in practice by the new policy because they were not part of the new *Jamahiriya* system, Davis (1980:173). Second, a Real Estate Law was adopted in 1978, which outlawed rental property (16). The families in rented houses became instant owners of their homes. They had to make mortgage payments to the government but these payments "usually amount to a third of the former rent and those with a family income less than LD. 190 pay nothing" (Jamahiriya Review,1980:11).

The state, in turn, has compensated the original owners of the rented houses by paying them a certain of sum of money, judged by the authorities to be commensurate with the value of property, spread over a number of years, (Deeb,1985:449). As a result, the private sector housing and real estate industry were eliminated. "The Real Estate Law of 1978 also placed some conditions on industrial and commercial establishments that were still part of the private sector, allowing for no absentee ownership and decreeing that such establishments were to be run by the owners themselves or some member of their family, or else were to be nationalised (Qathafi,1978).

Third, according to Deeb (1985:6) in late 1978 several measures that affected internal and external trade were introduced. The state became the sole importer and all foreign trade started to be conducted by public corporations. It also entered the wholesale and even the retail trade. The objective of state intervention in internal trade was to control prices, whether of imports or locally produced commodities, by creating state markets in every municipality. One hundred and fifty-eight marketplaces and consumers, centres were built all over Libya. The policy specifically targeted merchants. In a speech the Libyan leader said that:

> " ....our statistics now indicate that we currently possess 45,00 merchant. That means we have 45,000 non-productive Libyans"...(Quoted in El Fathally and Palmer, 1980:150).

Central purchasing started to fix the price of virtually all goods, generally with a low profit margin. Others closed their shops partly because wholesalers were nationalised and retail prices fixed, slightly because of the law that one man may not employ another. Consequently, shopkeepers mostly became government employees with guaranteed incomes. The nationalisation of the trade and services were also extended to lawyers in private practice, who theoretically work for a national syndicate, and consultants, architects, engineers, and accounts. However, the law did not directly affect agricultural sector. Farmers enjoyed a unique position in that they were allowed to market their own produce, provided. They or members of their family are directly responsible for such sales, by the roadside or in the suburban markets that surrounds major coastal cities.

Finally, late in 1970's the state adopted policies to limit the money supply. First, bank accounts were placed under withdrawal controls and exchange controls were introduced.

By 1981 individual bank accounts had been seized, an action designed to guarantee that all Libyan had equal assets.

2.5.2 Development Programmes

In contrast to these drastic changes that aimed to transform the socioeconomic structure of the country. The specific policies directed towards agricultural and industrial development showed remarkable similarity to the earlier period. In fact, the 1976-1980 Economic and Social Transformation Plan was conceived as an extension of the previous plan and it had many of the same goals. Agriculture was allocated the largest portion of the development expenditure. The plan envisioned an annual growth of 15 percent in domestic production to achieve self-sufficiency in food. "The industrial programme included plans for food industries, textiles, wood and wood products, chemicals, materials, metallurgic, engineering and electrical industries, some providing not merely for local needs but also for export" (Mohamed,1997:6).

The new plan confronted the same problems that old one did. Almost all of the agricultural ands industrial projects involved contracting out to foreign firms, this time more so because of the virtual elimination of indigenous entrepreneurship. Moreover, the dependence on imported technology and foreign skilled and unskilled labour and skilled management continued. In 1980, more than half the managerial and professional work was non-Libyan as was one-third of skilled and semi-skilled and almost 60 percent of unskilled labour; all in all foreigners comprised 40 percent of the active force in Libya.

The state was not clearly able to spend all money that was allocated because of several bottlenecks, most important being the shortage of labour. The policies of the state also contributed to the already existed labour shortage. By the end of 1979, an estimated 100,000 Libyans left the country, among them many of the best educated. Moreover, compulsory military training worsened the problem.

By 1977, Libya's development budgets were four times higher per capita than the rest of the Arab world (Vandewalle,1986:32). This centralisation, of course, completely contradicted the populist ideology and policies of the state, which claimed to abolish the state. On the contrary, the state became paramount having absorbed even the legal and medical professions. By 1979, 186,000 people worked in the civil service out of a population of three million (Deeb,1985:6).

The number of administrative personnel and the spending on administrative budget skyrocketed. The specific reforms, such as workers' self-management, created confusion, while others for example the new housing policy resulted in bureaucratic red-tape. As a result of the replacement of private importers by state trading monopolies and small private shops with state-owned supermarkets shortages appeared in the local markets.

By 1980 much of old problems also remained largely unsolved. Nearly 70 percent of the GDP was still provided by a single export, petroleum while agriculture, which employed 30 percent of the work force, accounted for nearly two percent of GDP and provided less than 40 percent of country's food requirements. In addition to the environmental constraints, incentive also remained a problem in the farm sector.

Disparity between urban and rural incomes still existed, despite the government attempts to narrow the gap. The state had been unable to stem the drift of Libyan citizens from the land. Hence, in 1980 over 18 percent of the agricultural work force were foreign labourers, many of them unskilled. Heavy investment in large state-run farms increased production of some crops like wheat (satisfied 18.1 percent of demand in 1975 and 31.1 percent in 1980) ,but, low rainfall and management problems cut the output back again. This certainly highlights the growing problem of falling water-tables of the fertile coastal areas in Libya, where already sea water was sweeping in.

Some progress had been achieved in increasing industrial production and it was clear that the Libyan planners were preparing for new stage of import substitution with a new emphasis towards heavy industry in the next planned period that would start in 1980. The problem of labour shortage became more acute, however, with the expansion of economic activity and as a result of the fact that 50 percent of the economically active Libyans was employed in services and related activities.

2.6 Conclusion

Since its establishment in 1951 Libya underwent significant socioeconomic and political transformation. The state was created both as a consequence of British and American strategic cooperation and as an imposition of an international system based on nation states. The new state faced severe economic problems and also political difficulties resulting from its lack of national cohesion. However, all seemed to change with the discovery of oil. Soon after Libya became a pure rentier state; that is a state that derived almost all of its revenue from outside and as a form of rent.

Despite the monarchy's laissez—faire ideology, due to the fact that the oil revenues directly accrued to it, the state increased its role in the economy. Other signs of distorted oil-led development started to appear in Libya, most important among them was the creation of an artificially large service sector and a lagging agricultural sector. In the meantime, the oil revenues and the policies of the monarchy created the initial conditions for modern class politics. Especially important was the emergence of a commercial bourgeoisie largely based on traditional urban families and with economic and political links to the state bureaucracy. In the 1960's, however, rapid urbanisation, increasing discontent with inequalities, "the stresses of a restless younger generation, turbulent Arab environment, and an oil revolution taxed the monarchy beyond its capacity to respond" (Roumani, 1983:164).

The seizure of power by the Free Officer movement in 1969 was another turning point in Libya's history. The role of the state in the economy became much more prominent. The new state's nationalization and "Libyanisation" policies contributed to this. More importantly, the ideology of the R.C.C.' members favoured more state intervention. Yet during these early years the state at the same time tried to stimulate Libyan entrepreneurship with its policies.

By 1973, however, it became obvious that the leadership was trying to stir the country into a new course. That year the Libyan leader announced the "popular revolution" and introduced the concept of "people's power." In the meantime, especially after 1977, economic policies of the state were designed to inhibit private accumulation of wealth. By 1980 virtually all sectors of the Libyan economy became under state control. In few remaining private companies workers' committees were established. The only exception was the oil sector.

It seemed that with the creation of the new system of Jamahiriya, as Roumani (1983:166) puts its, "Libya's historical problem with central authority was resolved by eliminating it altogether, at least in theory". However, in practice things were more complicated. The rejection of central authority and state institutions in favor of direct participation in the affairs of the society contradicted the fact that it was the state which directly received more than 70 percent of the GDP. In the political sphere the most important success of the Jamahiriya experiment had been the "removal of the last vestiges of a bureaucracy, which Qathufi considered a remnant of the monarchy, in favor of his own lower middle and lower class constituency" (Vandewalle,1986).

After the revolution the new state tried to replace tribal allegiance in politics, which was highly prevalent during the monarchy, with an ideological loyalty. Yet, despite the efforts "tribal relationships retained much of their importance" and, in fact, "within a decade of coming to power, and as his state faced increasing political opposition, Libyan leader himself had fallen back on reliance on kinsmen" (Anderson, 1990).

Moreover, the Influence of tribal politics increased in general, because of the policies of the state, which crushed intermediary institutions. In such an environment tribes became crucial. In theory, power was vested in the people through the GPC; in practice, especially when important decisions were concerned, the power rested on the upper echelons of the administration, particularly Col. Qathufi and, certainly, the banking sector, the armed forces, and most importantly, the oil industry remained outside the reach of the "people's power".

In the economic sphere Libya continued to face formidable challenges despite the attempts to overcome them. The agricultural and industrial development did not achieve the expected results. The state could not prevail over of a rentier economy. This did not mean a total failure, however. First of all, from the beginning the state took a quite successful hard line activist stance in international negotiations over oil-pricing policies and was successful in increasing Libyan revenues. Moreover, the Jamahiriya succeeded in making major improvements in the general welfare of its citizens. The policies undoubtedly benefited the poor and the disadvantaged. The Libyans enjoyed much improved housing and education, comprehensive welfare and health services, all free of charge. Yet all this was dependent on the continuous flow of oil rents since Libya had not been able to diversify its revenue by early 1980's.

Actually, even policies favouring diversification had pitfalls. Ironically despite the self-sufficiency and "true economic independence" ideology of the state, the policy diversification also put the country on a road of increasing dependence on Western technology, manufactured goods and manpower. Certainly, the state was hoping that this would be temporary, and that once the results of the economic policies became apparent Libya would escape from this dependency. Even if one accepts the appropriateness of the choices that were made, this strategy was risky since it assumed that the oil market would always be kind to the oil producers and the oil rents would continue to flow at the same rate. In the early 1980's it began to become obvious that this assumption was false. The coming chapters deal with this question and endeavour to understand what happens to a rentier economy such as Libya during a time of severe revenue slump.

End Notes

(1) For a detailed account of the U.N. role during this period see Pelt (1970). Adrian Pelt himself was appointed by U.N. General Assembly as the U.N. Commissioner in Libya.

(2) The Sanusi movement was founded by Muhammad Ibn ali al-Sanusi and spread from Cyrenaica, to Central Africa, Egypt and the Sudan. The installation of the head of the Sanusi order as king was a result of an promise the British made him during the war. For more on the Sanusi movement, especially See Evans-Pritchard (1949).

(3) Higgins prepared a six-year social and economic development plan that was adopted by the monarchy the independence (Wright,1982:50-51).

(4) The most important of the U.S. installations was Wheelus Air Base near Tripoli and it was considered strategically valuable for the U.S. and N.A.T.O in the 1950s and 1960s. in addition to the U.S and Britain, France, Italy and Turkey gave smaller amounts of aid to the monarchy. Libya established full diplomatic relations with the Soviet Union in 1955,but declined a Soviet offer of economic aid Berry, (1989,38).

(5) After the independence Libya joined the Sterling Area with a unit of currency, Libya pound, per with Sterling. Libyan Pound was changed to Libyan Dinar 1971.

(6) An interesting side of the 1953 Law, which became significant later after the revolution, was that it restricted the number and size of concessions and as such it created conditions which enabled independent oil companies to make their first crucial breakthrough in Middle East production. For more information on the Petroleum Law see Waddams, 1982.

(7) The estimated shantytown population in Tripoli alone increased about 60 percent, from 25,000 in 1954 to 40,000 by 1964 Wright (1982:117).

(8) In mid-1960 the oil industry employed 6,300 Libyans, by 1967 the number had fallen to 3,965 Thomas (1961: 266); El Mallakh (1969:314).

(9) As late as 1967 the Bank of Libya in its annual reports was complaining about the lack of data certain aspects of the economy " because the basic statistics and method of compiling the necessary data are not yet completed.

(10) The labour movement in Libya was relatively powerful and active. In September 1961 the monarchy amended a labour law that severely restricted union membership and right to strike. However, this did not completely eliminate labour activism Wright (1982:92) for the early years of Libyan labour movement see Norman (1965).

(11) From the start the R.C.C claimed that, despite the way the power changed hands, this was not a coup but a social revolution. Col. Qathafi announced at the outset of the "*El Fateh Revoulation*" that this " is a serious historical transformation" Middle East Journal, 1970:203).

(12) King Idris legitimacy was partly based on his position as the head of the Sanusi order.

(13) The "Libyanisation" of the foreign banks had started during the monarch. The 1967/68 Annual report of the bank of Libya (P.9) stated that the number of Libyan banks rose to five during that fiscal year, while four foreign banks continued to reject " Libyanisation" and maintained their status. Theses banks, namely Barchlaya Banks, Banci di Roma and the Arab Bank were nationalised by the new state. See Baryun (1987).

(14) The Green Book, which contains Qathafi's political economic and social thought, revolutionary precepts, and definition of "Arab socialism" consists of three volumes. The first volume, titled "The Solution of the Problem of Democracy," published in 1975. The final volume, " The social Basis of the Third

Universal Theory" published in 1978. On different ideological influences in the Green Book see Hajjar 1980, 1982a, and 1982b.

(15) The reason given for the exclusion of businesses based on technical skills was that these shops were not considered exploitative in nature because they provide services not goods El-Khawas (1984:30).

(16) Exception was made for widows those only source of income was the revenue from the rent of their houses, and for families who had at least one son over 18 years old.

(17) Following the partial lifting of the U.S trade sanctions in 1989 negotiations were held abut the conditions for their return. However, the Bush administration's decision in early 1991 to continun trade sanctions against Libya deadlocked the negotiations. They were frozen by the U.N. sanctions imposed in March and effective from April 1992.

(18) For example, a U.S. Company Brown and Root was working on the G.M.R project and at Ras lanuf. Another company, price Brothers licensed their pipeline technology for the G.M.R project, after being given authorization to do so on the grounds that the project was a "humanitarian" one.

CHAPTER THREE THEORETICAL FRAMEWORK

3.1 Introduction

At the beginning of the mid-1980's there was a remarkable transformation of economic policy in the Middle East and North Africa. Almost all countries in the region have adopted structural adjustment programmes, which aim to liberalise and privatise their economy, albeit to varying degrees and intensities. Certainly Libya was one of them. From 1987 the Libyan state has announced several measures so as to reform the domestic economy. Taken together these measures point to a sluggish, but cumulatively drastic, change of course in Libya's economic policy. What have been the determinates of this change in state strategy? How can we elucidate the timing, the extent, and the character of the economic reform programmes? How successfully have these programmes been implemented? What accounts for the extent to which the Libyan state followed through on this decisions? How has the privatisation programme currently been reactivated?

In order to address these questions, a theoretical framework needs to be presented, which is relevant to understanding how the international and internal political economies interact and affect the formulation and implementation of economic reform policies in Libya, and also to improve our understanding of the economic reform programmes especially in oil/rentier economies such as Libya. The subject has an immediate relevance for the experiences of other oil-exporting states during the periods of revenue drop.

The integration of theories of economics and politics is based on the fact that theories from different fields share similar analytical presuppositions. This ensures that their insights could be legitimately and rigorously combined.

Parallel to the work on economic policy making in general, the body of research on the political economy of economic adjustment has been rapidly growing. One can identify four explanations that are not necessarily always mutually exclusive within the theoretical literature; the external level explanations; the internal level explanations; individual level or actor-based; explanations; ideological level explanations and also the impact of globalisation and state power. However, this chapter considers the theory of the rentier state and reviewed the most relevant debate of the privatisation process that related to the Libyan privatisation programme.

3.2 The External Level Explanations

International level explanations attribute major explanatory power to international variables (Cohn, 2000; Stallings;1992) since so many countries have moved in the same policy direction in a relatively short period of time, and there has been a parallel restructuring of the world economy, one would expect that the importance of the international context in the analysis of political economy of reform would have been reinforced. Stallings points out that, "international factors are crucial in explaining broad shifts in policy, both in contrasting the 1980's with the 1970's and explaining changes within the decade of the 1980's" (See Stallings, 1992; 2000).

Nevertheless, international level explanations seem to be the least developed. In fact, as Stallings (1992) argues "in the late 1980's, the dominant intellectual paradigm downplayed international variables in favour of domestic politics".

This does not, however, mean that international factors were totally disregarded. This certainly would have been impossible, especially given the highly visible roles that the international institutions play in the process of liberalization. However, even when considered the international factors were always regarded as relatively less important. In addition, the effects of the international arena were generally limited to the influence of external agencies and an attempt was made to show how limited their influence has been (See, for example, Kahler, 1992 and Cohn, 2000). In other words, with the exception of few studies, the impact of the global economy and world policies has commonly been neglected or taken as a given.

The Libyan case is interesting in this respect. International institutions are totally absent, yet the overarching impact of the world economy, particularly the world oil market and international policies have been two crucial factors leading Libya to adopt policies that are extremely similar to I.M.F. prescriptions.

There are certainly limitations to explanations that are generally based on international variables. Most significant of all is that without reference to the domestic socioeconomic and political factors, external level explanations cannot account for variations in implementation, and even in few cases initiation, of the liberalisation policies across countries. In fact, the importance of the domestic context is generally recognized by scholars who are working within this framework (See, for instance, Stallings, 1992; 2000).

According to Haggard and Kaufman (1992), the first concerns the availability of economic resources (principally in the form of finance) and levels of vulnerability to international shocks. The second concerns the linkages between domestic actors such as technocratic groups, business sectors, the military and the middle classes with their counterparts abroad. This is a means of identifying the 'outward orientation' of significant societal and government actors, which in turn affects the orientation and nature of policy preferences. The third, predictably, concerns "relations between national governments and international financial institutions in the context of structural adjustment and debt management" (op. cit, :49-58). Nonetheless, Haggard and Kaufman, (2001:1) discussed that:

> "....countries of former Soviet Union Eastern Europe and also Middle East countries are now entering the second decade of political transformation and economic reform. These countries undertook transitions to democratic rule. This combination of economic crisis and "extraordinary politics" by no means led to uniform outcomes, but it did create opportunities for reforms to initiate fundamental economic transformations. At the same time, many governments also began a complex set of microeconomic reforms that have been at the center of the literature on the transition to the market. Some of these reforms, such as the adjustment of relative prices through decontrol and liberalisation of trade, took place relatively quickly. The reform of property tights through privatisation and rehabilitation of state-owned enterprises has necessarily been more prolonged".

However, economic and political choices with respect of fiscal policy and welfare reform do much to define the size and boundaries of the state, both in the narrow sense of its claim on total resources and in the more expensive sense of the delimitation of its sphere of competence and obligation (op.cit:2). Arguably, Murphy (2001:135) emphasised that "the experience has shown that there is no universally appropriate blue-print for the transformation from a centrally-planned or state-managed economy to one in which the market is supreme. In every case, this is a unique combination of history, culture and political system which impacts upon both the stimulus for economic change and its political fall-out. Clearly, this must be taken into consideration when devising reforms or evaluating their results". In the context of Middle East states, as Hinnebusch and Ehteshami (2002:15) emphasised that:

> "...decisionmakers "omni-balance" between external and internal pressures and the main location of threats (also opportunities and resources) shapes the decision context. Thus, when the primary threat is *internal,* a state may align with an external power to get resources to contain it. But it could also seek to appease domestic opinion and enhance legitimacy by indulging in anti-imperialist rhetoric or irredentist campaigns. Where the primary threat is *external,* a state may mobilize new domestic actors into politics to expand its internal power base and seek alliances with similarly threatened states. When economic troubles are acute, elites may seek to *contain* domestic nationalism in order to pursue the accommodation with the core powers needed to access economic resources; when the economy is secure, they are more likely to risk *mobilizing* this nationalism to challenge or adjust the impact of external forces on the state. The particular location of threats and opportunities that leaders face obviously varies over time and from state to state and cannot be settled a priori. But few can escape a complex balancing act if they are to survive".

3.3 The Internal Level Explanations

The domestic influences are generally either society- or state centered analysis. The former stresses the importance of pressure from domestic social groups. There are several studies pointing to influence of social sources, especially businessman in the initiation of liberalisation policies (Cohn, 2000; Kruger and Turan,1993; Waterbury,1992). Most of the studies that focus on society discuss the significance of several groups in the implementation process. They deal with the role of business and organised labour in supporting and opposing reforms. It is generally argued that acquiring the support of these groups is important for the stability of policies (Barbara, 2000; Centeno, 1994; Leith and Lofchie, 1993) in addition, it is pointed out that an effective economic adjustment requires overcoming popular opposition through coalition building (Cohn, 2000; Waterbury, 1989).

There are also limitations to society-centered explanations. Two of them are especially crucial. First, as most scholars emphasised there are collective action problems. The studies show that in some cases social groups may be unable or unwilling to act in support of policies that are in their interests (Bates and Kruger, 1993; Haggard and Kaufman, 1992:27). Second, most of these studies have difficulty in explaining "the mechanisms" through which interests are translated into policy outputs" since the models "rest on very simple aggregation rules, or simple decision-making mechanism" (Haggard and Kaufman, 1992: 28).

The state-centered explanations, on the other hand, represent the bulk of the work in this area. This is to some extent to be expected because of the central role of the state in the policy process. "These studies locate the sources of policy change within the administrative and decision-making apparatus of the state. Some of them look for sources of resistance and support within the state and generally argue for the importance of technocrats for the initiation and successful implementation of the reform policies" (Waterbury, 1992; Rivlin, 2001).

Other assert the importance of electoral cycles and political systems (Cohn, 2000; aufman, 1990). One dominant discussion is concerned with the relationship between the types of political states and the successful implementation of liberalisation policies (Haggard and Kufman, 1989; 2001). Another issue that is discussed by scholars who espouse state-centered explanations is the importance of state autonomy, especially for the implementation of reform. Although most of the studies agree on the importance of the state's autonomy from social groups for the success of the reform programme see for instance (Geddes,1994; Callaghy,1989). Evans (1992) argues for what he calls "embedded autonomy, a concept that combines state autonomy with immersion in the "surrounding social structure".

Furthermore, Haggard, Kaufman, and Geddes argue that the state autonomy literature has been influential in demonstrating that states do, at times, pursue policies that disadvantage the economically dominant in society. Therefore, as Haggard and Kaufman point out "societal forces and economic interests remain essential for understanding the possibilities and limits of reform, but the nature of their influence is frequently misunderstood (Haggard and Kaufman,1992) Based on this observation, it can be inferred that state officials do have preferences and interests of their own, independent of other societal forces. However, the question then becomes, how are these preferences and interests acquired by state officials?

However, Geddes laments while the State autonomy Literature has been useful in setting the agenda, attempts to answer this question appear "stalled" at an early and frustrating stage. Insight and description abound but explanations remain scarce" (Geddes,1994). Similarly, Haggard and Kaufman note the shortcomings of the state-centered approaches because of their failure to confront two important puzzles:

I) the first is to understand the preferences of state elites. If elite preferences are not the result of pressures emanating from particular groups or from the logic of political competition, then where do they come from;

2) the second question concerns the organizational characteristics of the state that allow elites to act on their preferences (Haggard and Kaufman,1992).

Hence, Haggard, Kaufman and Geddes in their respective works attempt to provide us with possible sources of elite preferences based on the suggestions gathered from the works of John Waterbury, Peter Evans and Margaret Levi (Waterbury,1992; Evans,1992). Haggard and Kaufman point to three possible sources of elite preferences: 1) *preferences* driven by the need for system maintenance - whereby state elites will tend to initiate reforms if they perceive their ability to collect revenue curtails their efforts to spend on economic and political objectives. Thus state elites calculate, first and foremost, their political survival even if it means overriding the concerns of particular constituencies; 2) *preferences* driven by organizational capacity - state elites preferences are a function of their capabilities.

Elites will prefer those polices that correspond to their level and depth of technical competence; and 3) *preferences* emanating from the ideological position of the political leadership - points to processes by which state elites perceive and interpret the ascendancy of neo-liberal economic doctrine and then incorporate into a policy context (Haggard and Kaufman,1992).

While Haggard and Kaufman identify three potential sources of state elite preferences, Geddes relies on one source of influence. Employing the rational actor model as used by

Margaret Levi, which also is utilized by Haggard and Kaufman in their identification of the first potential source of state elite preference Geddes presents the argument that state elites preferences are derived from their overriding interest to remain in office. Hence like Levi, Geddes views politicians as state maximizers making political survival calculations based on their interests to stay in office. Nonetheless, Geddes does note that in turn, "political institutions determine which strategies for staying in office will likely work (Geddes,1994).

While works presented by the authors just mentioned appear promising in moving us beyond the narrow state-centered approaches, they bring us no closer to understanding "What are the preferences of state decision-makers?" and "From where do these preferences emanate?" Primarily the "systems maintenance" or "career maximizer" argument has not been able to account for those cases in which state elites undertook reforms despite threats to their chances of being re-elected. For example, as we have seen, in the case of Libya's first attempt at structural and economical adjustment, which was implemented in 1988 under the leadership of Muammer Qathufi, he opted for reforms that transformed the country politically and economically.

This was despite the fact that the implementation of these policies alienated the revolution committees cadre and threatened their interests. The second of Haggard and Kaufman's potential sources of elite preferences, which is an outgrowth of Peter Evan's work on state embeddedness, is also problematic.

Dissatisfied themselves with the limitations of the systems maintenance and bureaucratic capacity explanations of elite preferences. Haggard and Kaufman suggest that in the final analysis "state centered explanations must often rely in the last instance on the way ideology shapes elite cognitions and values (Haggard and Kaufman,199; Geddes,1994:2).

However, while Haggard and Kaufman make note of the importance to study how ideology shapes elite conditions and values they offer no systematic model for investigating this proposition. Essentially, we are no closer to understanding why state officials, who occupy the most prominent position in the policy process, choose to initiate economic reform policies. In this context, I will discuss these aspects in chapters six and seven.

A spin-off from the state-centered analysis is the institutional approach, which examines the institutional context within which decisions were made and policies were implemented. It takes the state structures and state capacity as key determinates of the stat's ability to formulate and implement policies (Haggard and Kaufman,1989;2001;Callaghy,1992). Besides the formal properties of political institutions, this approach also focuses on economic institutions, such as markets, financial institutions. Scholars who work within this framework generally regard institutional weakness as an impediment to the implementation of state policies (Haggard and Kaufman, 1989).

I would argue that institutionalisation inherently means the stability of the institution and its internal integrity that renders it capable of advancing its functions and enhancing its powers in order to cope with the ever changing environmental requirements. Likewise, the lack of institutionalisation is an indication of the diminishing institutional powers of the state and its failure to implement its duties such as production, organisation and distribution. However, the pattern of economic organisation and the public policies in the distributive/rentier states may lead to the decline of the institutional capabilities of the state with respect to production and organisation.

Although factors such political will, transparency and the legal framework are prerequisites for the processes of economic reform and privatisation, yet they do not insure success unless they are supported by the essential enhanced and upgraded institutional powers, given that these powers are affected to a great extent by the phenomenon of structural and organisational stability. According to Mogherbi, (2004: 23):

> "The Libyan example is a case in point regarding the above relationship. It widely known that the Basic People's Conferences are designated to outline the aims and objectives to be achieved by the different decrees and legislations featuring the public policies. In the meantime the executive and administrative institutions are designated to draft the executive regulations elucidating and detailing these legislations besides considering the necessary measures to enforce them. Consequently the stability and integrity of these institutions are crucial factors for effectiveness and efficiency of public policies in achieving the objectives. However, the perpetual structural changes in Libya since the seventies and until now have profound impacts regarding the effectiveness and efficiency of the public policies including all areas. This simply because these changes have affected all levels of the social spectrum including the People's Conferences, The General People's Committees and also the Specialised General People's Committees of all sectors particularly the economic sector".

3.4 Individual level or actor-based Explanations

The Individual level explanations are the rational choice or public choice models, which bring basic assumptions and concepts of neoclassical economics to the analysis of the political economy of structural adjustment. They take the individual as the unit of analysis arguing that the policies are shaped by actions of individuals. The general explanation of economic policy is based on the assumption that all involved individuals are rational utility-maximisers (Krueger, 1974; Srinivasan, 1985).

In terms of the application of this general framework to the analysis of economic reform process the argument seems to be as follows. First, as opposed to other explanations rational choice starts with clear assumption that any state involvement in the economy is undesirable as it interferes with markets. The public interest is served by efficiency, and efficiency is served by following the market. State intervention creates an economic environment that generates 'rents' such as import licenses and, hence, a network of self-interested "rent-seekers". The rents are inefficient income-generated assets (Rivlin,2001; Vandewalle,1998; Krueger, 1974).

Policy makers behave the way they do because of their narrow self-interest. Their behaviour is however, "politically rational" since they choose policies to tighten their hold onto power (Ames,1989). Arguably, Ehteshami and Murphy (1996:7) point out "interest groups had a chance of advancing their interests so long as they worked through the established and internalised system of interest articulation.... When interest groups attempted to air their grievance outside of the system- for example by challenging the dominance of the single party and its role as an arm of the state – the state would claim that they challenged the national consensus and interest and so could legitimately be suppressed".

The initiation of liberalisation policies is a response to "politically rational" policy makers to economic crisis, that was caused, or at least, reinforced by, "economic policies [that] had been highly detrimental to growth" (Krueger,1993). Several rational choice scholars also highlight the importance of collective action problems, emphasizing the factors that inhibit or facilitate such action on the part of different groups. In this context, Hinnebusch and Ehteshami (2002:16) notice, "since roles seldom provide ready-made solutions to particular challenges and because often-incompatible demands require trade-offs, there are many possible rational decisions in any situation. The actual choices of policymaking elites will, therefore, be shaped by their values and interests and, where elites conflict, the power distribution among them that is defined by the state's governing institution".

There are several criticisms directed towards the rational choice approach. A number of scholars argue that the basic assumption that individuals are self-interested and rational is wrong. Moreover, the rational choice model lacks any broader theoretical basis that would help to account variability across time, space, and issue area. Specifically in relation to the economic reform process there are essentially two issues. First, the assumption about the superiority of the market is questioned. Several scholars have claimed that it is not obvious that market failures were any less inefficient than state-intervention failures (Banuri,1991; ;Cohn,2000).

Moreover, some analysis pointed out the central role of the state in creating and sustaining markets (Chaudhry,1993). Second, these explanations by definition exclude issues of power, domination, and distribution, which are at the heart of liberalisation and market creation processes. Third, with it focus on career incentives and 'political will', rational choice theory could not explain clearly why "self-interested state officials" should implement policies that eventually diminish their power.

3.5 Ideological Level Explanations

The Ideological explanations focus on the role of ideas and ideology in economic policy change. Various scholars argue for the importance of the clear ideological shift in the mainstream development thinking especially in 1980s. They stress the ascendance of neoclassical ideas and their diffusion especially through technocratic alliances (Kahler 1992; Stallings, 2000). It can be argued that the role or function of ideology becomes critical. Many years ago, Strausz-Hupé and Possony (1950:421) distinguished between two types of ideologies, they wrote:

> "It becomes important to distinguish between ideologies as drives and ideologies as tools. If the ideology is a drive, it dominates the minds not only of the followers but also of the leaders; if it is a tool, the ideology has consciously been used by a leader in order to enlist greater obedience among his followers or to obtain new otherwise inaccessible recruits, but the leader does not him self believe in the ideology propogated by him, unless this happens unbeknownst to himself – having repeated the same words once too often, he finally believes in them".

The authors discuss these two functions of ideology as thought they were mutually exclusive; and they often have been. In Libyan case, one of the remarkable aspects of Muammar Qathufi's ideology is that it has been both drive and tool since the initiation of the September 1st revolution. Moreover, "Libya is one of few Arab countries, which is ideologically committed to economic and social planning, and the only one to embark on a bold experiment involving radical changes both in individual attitudes and in socio-political and economic institutions"(Haddad,1990: 49).

The developments of the Libyan economic and political systems were closely connected, particularly after the revolution. Achievement of "true economic independence" from foreign exploitation became a political target and also an economic one. As mentioned in chapter two, during the 1970s Qathufi's political economic theorising on a concrete from in the publication of the Third Universal Theory in the Green Book in which he promotes the design of an egalitarian and socialist society. "The Green Book clearly represented a turning point for the Libyan revolution: it was the guideline to a new political and economic system for the country" (Vandewalle,1998:91).

In addition, economically and politically, the country had been thoroughly transformed by the end of the revolutionary decade (1973-1982), "the state institutions had been put directly into the hands of the people through a system of political congresses and committees, and all private economic activity had been outlawed.... The creation of this congress-and-committees system closely dovetailed with the ideological and political inclination of the state" (op.cit: 83).

Generally speaking, the social and economic systems in Libya have to some extent been influenced by changes in ideology. It has been a socialist ideology, which has attempted to predetermine development objectives in order to transform both the economic and Libyan society into a socialist society. Although the socialist ideology was aimed at transforming the status of wage labourer to those of partners, the situation of wage labourers who took over the plants where they were working is still unclear.

Indeed, "the only change worthy of mention was the change of the title of 'wages' to 'producer's shares'" (Abbas,1987:80). Overall, there are several problems emerged in the level of ideological explanations, one of these problems that stress the transmission of ideas from the outside is the difficulty of pinpointing the mechanisms of this transmission except in a few cases such as “the technocratic cadre that came to power under Salinas in Mexico in 1988” (Biersteker,1992:121).

Moreover, even if the technocratic alliances are formed, studies show that their presence is not enough, and these ideas must spread to the broader segments of state and society (Haggard,1990). Finally, as to the importance of the official ideologies, the sustainability of argument is weak in the face those cases where governments espouse very different ideologies yet adopted and implemented similar liberalisation policies.

Certainly there is some overlap among different explanations that this basic categorization does not allow. Moreover, the different types of explanations can be combined in various ways and, in fact, some scholars have argued for this synthesis (Stallings, 2003; Biersteker,1992; Haggard and Kaufman,2001). It could be said that each explanation provides some insight into the reform process and there are bases for synthesis. I would argue that two basic theoretical issues lay at the heart of this kind of synthesis as such they constitute the two key theoretical contentions of this thesis.

The first central theoretical issue concerns the matter of the relative importance of international and domestic factors especially in explaining economic strategy change. I would argue that to pose this question as an either/or one is false. The issue rather is to show, as several scholars have (Cohn, 2000; Loriaux,1988;Stallings,2000; Biersteker,1992; Haggard,1988), how international and domestic political economies interact and affect the formulation and implementation of economic policies. Framed in this way the interactive analytical model that is favoured here is an eclectic method and it differs from state-or society-centered explanations of economic policy and also from explanations based purely on ideological or international factors. I hope to demonstrate the improved explanatory power of this research strategy.

As Hinnebusch and Ehteshami (2002:2) discussed "it is useful to assume that the foreign policies of Middle East states are shaped by the way their leaders negotiate the often conflicting pressures emanating from three conceptually distinct environment (1) the domestic level; (2) the regional systemic level: and (3) the global (or international) level". Moreover, it has become accepted that "we can no longer understand politics within countries ... without comprehending the nature of the linkages between national economies and the world economy, and changes in such linkages" (Milner and Keohane, 1996:3).

I would argue that the period of change in Libya in the mid-1980s is an episode that cannot be fully explained without examining how the international political economy interacted with the domestic political economy. The second key theoretical assumption is related to the so-called "agent-structure problem" (Wendt,1995). At one level this is also a study of the relationship between structure constraints and opportunities, on the one hand, and political choice, on the other. It stresses the importance of structural context in understanding how choices about economic policy are made.

Although clearly the concept of political choice provides an important corrective against the pitfalls of structural determinism, unlike the rational choice approach. This study assumes a much more conceptualised understanding of choice. In Libya's case I would discuss the choices were made as a response to the problems that arose out of socioeconomic and political processes that were taking place both internationally and domestically. And these choices were affected by the structural characteristics of Libya; an oil economy with scarce manpower and water resources.

3.6 Globalisation and State Power

The state is being challenged by globalisation processes, forcing it to retreat from the centre of economic and political activities. "This view based on the new-liberal paradigm, postulates that structural forces, mainly economic, push other agencies, specifically the state, to withdrew from its position of centrality within the international and domestic arenas" (Moshaver,2001:248).

However, it is difficult to assume that the globalisation process necessarily benefits all along the way. "The impact of globalisation on the state depends on the prevailing conditions within the state, or the 'inside', in interaction with the 'outside'. In other words, the way states benefit from globalisation and adjust to global forces for change depends greatly on the pattern of power, authority and interests within their domestic political and economic environment" (op.cit:249).

Globalisation in the international economy has been equated with the increasing redundancy of both states (in terms of actions and choices) and national boundaries. Middle East and other developing countries are perhaps the most vulnerable to this type of international change, and also the most conditioned by it, particularly if one draws a parallel between processes of globalisation and the dissemination of the neoliberal agenda. Hinnebusch and Ehteshami (2002:62) indicated that "the Middle East has inevitably been affected by the contemporary globalisation of economic activity- the universalisation of a liberalised capitalist economy as the accepted model of domestic and international economic relations-and the accompanying ideological pressures for the liberalisation of politics and the quickening pace in the development and use of communications technology".

However, not discounting huge variations between Middle East countries, the process of policy-making is usually characterised by a high degree of centralisation and the mode of social organisation remains in most cases highly statist. The development project, furthermore, remains highly dependent on the institutionalisation of certain policies and structures by means of state and government action. The economic reform chapters, six; seven and eight in this thesis demonstrated to some extent that the reform process in Libya since 1987 conforms to both of these observations.

In the light of this apparent contradiction, it is the contention here that the effects of globalisation have created a 'paradox of state power'. On the one hand, as global finance and transnational actors are increasingly dominant in international economic activity, states are seen to be controlled and constrained by markets and market-oriented imperatives. Both governments' room for manoeuvre and the range of policy options available in the context of globalisation are seen to be vastly reduced, making impossible talk of 'national' economic policy or autonomous processes of policy choice. This is the result of a fundamental shift in the structure of rewards and punishments in the international economy as a result of financial and productive globalisation. In this sense, globalisation increases the imperative of conformity with the new international policy agenda, and at the same time vastly increases the costs of non-conformity.

On the other hand, this does not imply that states are irrelevant in the international economic or political arena. Nor does it imply that policy choice or government strategy are redundant concepts, particularly in the case of countries such as Libya which are concerned with *establishing* a functioning market economy and the economic structures necessary for attracting foreign investment, the role of the state and the importance of policy choice is paramount. The state is now concerned with the pursuit of competitiveness and the elaboration of strategies aimed at achieving credibility in the international arena. Although the traditional functions of the state are questioned by the effects of globalisation, then, and the traditional authority of the state is challenged by other forms and locations of authority, the role of the state in responding to and managing the impact of globalisation remains pivotal.

Thus, paradoxically, the state becomes simultaneously more and less powerful under the impact of globalisation. One way of formulating the issue is to argue that the state's autonomy in the international arena has diminished as a result of globalisation, while the state's autonomy in the domestic arena has increased. The reduction in the autonomy of the state at the international level acts to increase the policy-making capacity of the state at domestic level, even while the process of reform closes doors behind itself as a result of the 'rules of the game' in the globalised economic arena. As such, the power of the national state is increased.

With respect to the specific case of Libya, these arguments are used to demonstrate the role of international influences in creating the necessary conditions for the consolidation of Libya's political and economic reform agenda.

3.6.1 Globalisation and the State

One of the most salient questions generated by these observations, then, concerns the impact on the state of these types of international change. The debate is now well-established but remains highly divided. On the one hand, the evidence clearly points to the fact that the nation-state is a "structured field of action" which is poorly adapted to the task of government or governance in the context of globalisation. In some analyses this challenge to the former dominance of the national state in matters of national and international governance is formulated as the 'retreat of the state' or the 'splintering of the state' either simultaneously with or as a result of the 'crystallisation of transnational structures'.

On the other hand, the state continues to be conceptualised with reference to the formulation of strategies that are fundamental to national competitiveness, and of mediation between the national and international levels of action and interaction (most clearly with regard to managing the more negative domestic effects of globalisation). Furthermore, the state is increasingly seen to be the main channel through which the maintenance of the global economy itself can be achieved. The literature critical of globalisation theory contends that the process of globalisation is exaggerated, that international economic activity remains dominated by exchange between well-defined nation-states, and that the sorts of indicators that are taken to suggest a fundamental change in the nature of international organisation and activity do not reflect anything that departs substantively from past situations.

3.6.2 The State: Obsolescence and Retreat?

The emergence of a global economy has created the situation in which progressively international economic organisation is determined by market forces, which axe beyond the control of national governments. Globalisation is, therefore, widely equated with the disappearance of national boundaries and the withering of the state, suggested by labels such as the "end of sovereignty" and the "borderless world"(Camillieri and Falk,1992; Cohn,2000).

National boundaries are seen to be dissipated by the dominance of transnational actors and forces, and national economic strategies rendered increasingly irrelevant by the 'hegemony' of international finance and the apparent omnipotence of the market. The state thus is forced out of its traditional role as agent of economic organisation, in both the national and the international contexts. In a report prepared by analysts in the UNDP Human Development Office, for example, it is claimed that from a peak in the mid-century the state as an "economic entity" is presently in decline, and that globalisation in this respect is "the attack from above". In a passage typical of this sort of view, the report claims that:

> "Integration of states into something approximating a single, unified international economic system not only has increased their openness in a conventional sense, it also has weakened the ability of the state to impose its will on other economic actors, notably business firms with subsidiaries in a number of countries, employed persons with internationally marketable skills and investors with access to international capital markets ....International markets have eroded political sovereignty; the state increasingly is unable to act unilaterally on economic matters and achieve its objectives ....There is no turning back from the consequences of liberalisation, market processes and technological change .... Supranational forces have begun to reduce the state to impotence" (Griffin and Khan,1992: 42-3).

In effect, the versions of globalisation theory that perceive a 'withering away' of the state, to whatever degree, feed into a current that may be labelled the 'politics of anti-politics'. This can be found quite as much in the IR and political science academic literature as in the rhetoric of politicians and institutions throughout the world. In Middle East, the recent wave of liberalisation was often portrayed as the divorce of politics from economics: indeed, in its most conventional formulation, the advantages of liberalisation are seen to accrue principally from the removal of politics from the workings of the economy. In this way, the forces of the free market are seen to be freed from the political spanner which induces such evils as corruption, rent-seeking, protection and inefficiency. In the international context, this can be described as a version of "anti-political liberalism" (Hirst and Thompson 1996:176).

This was an important motivation for reform in Libya. The economic structural difficulties experienced in Libya in the two past decades have been widely attributed to the effects of excessive state regulation, which created a highly politicised economy incapable of functioning under the international and domestic crises. Apart from specific reforms aimed at reconfiguring the structure of political interests and state-society relations, the reform of the state was seen as essential both for increasing economic efficiency and for eliminating the arena in which societal pressures could be brought to bear.

Moreover, privatisation, deregulation and administrative reforms became the most important elements in Libya's strategy, and also the placing of policymaking responsibility in the hands of state technocrats such as the current Secretary-General "Prime-Minister" Shukri Ghanem. As a result, the bloated state sector seems to be dismantled and consequently ceased to perform the political and economic functions with which it had been charged from the 1969. "It is precisely these sorts of policies throughout the world, combined with the nature of globalisation, which have generated what has been called the 'phenomenon of state denial'" (Weiss, 1998:2).

Globalisation, however, is mistakenly seen as a process in which the state is 'retreating' or becoming irrelevant, overtaken by transnational and non-state forms of authority, furthermore, that particularly in the case of Middle East and other developing countries, the state cannot be wished away quite so easily. In this respect, Murphy (2001:135) emphasises:

> "The state is perhaps the single most critical player among the myriad of political forces at work in these complex equations. Economic liberalisation arises from the failure of the state to successfully determine production and resource allocation in an increasingly international context. It can not take place without the compliance of the state. After all, economic liberalisation is all about the retreat of the state from certain economic activities, threatening both its power and its reach. The state itself is not a monolithic actor, but comprises a variety of interests which may find themselves at adds with one another as the impact of economic reforms is felt unevenly among them. For instance, the determination of the state's political figures to advance economic liberalisation can threaten the power, if not the very jobs, of the bureaucracy".

With respect to the state's economic role in distributive "rentier" state, this thesis is also concerned with selected and relevant aspects of rentier state literature. The major reason we would consider the rentier concept is that Libya has exemplified the quintessential rentier state due to its almost complete dependence on external rent as a source of state revenue. Therefore, the following section of this chapter looks at the conception of rentier state with reference to the economic development and legitimising a rentier state.

3.7 The Theory of The Rentier State

Another body of literature that this thesis draws upon almost exclusively takes the Middle East as its empirical base.

3.7.1 What is the Rentier State

The concept of the "rentier state" was postulated by Hossein Mahdavy (1970) (1) with respect to pre-revolutionary Pahlavi Iran in 1970; the idea has since been appropriated by a community of Middle East specialists in their discussion of the Arab world (2). The theory in its broadest sense defines rentier states as those "*countries that receives on a regular basis substantial amounts of external economic rent*" (Mahdavy,1970).

It does not define the rentier state as exclusive to the Persian Gulf or the Middle East. But rentier theorists have had Arab oil-exporting and oil-transiting states in mind particularly during the historical period 1951-1981, when they appropriated a large share of the economic rents associated with their petroleum industries. Libya is certainly a good example of a rentier economy. In fact the limited work that exists on the Libyan economy has been based on this concept (see, especially First, 1980; Allan, 1981; Vandewalle, 1998).

The literature on the rentier state/economy makes several arguments about the impact of the oil phenomenon. Most of the arguments related to the sudden influx of externally generated rents on the nature of the economy. Most of these arguments are found in the "Dutch Disease" literature (3).

Rentier state is defined as any state that receives a substantial portion (4) of its income in the form of external rents. Furthermore, to qualify as a rentier state, the state must be the direct recipient of the external rents (beblawi and Luciani,1987). It is important to notice that as income generated from sources outside the physical boundaries of the recipient country, external rents "have very little to do with the production processes of their domestic economies (Mahdavy,1970).

A rentier state then is defined by reference to the portion of rents in state revenues, the externality of those rents to the domestic productive processes, and the state's direct control over them. To complete the definition a fourth caveat should be added. To qualify as a rentier state the first three conditions should be true over a relatively long period of time. Institutions are by definition slow to develop or change. Any effect that rentierism might have on the state or societal institutions can only be realized over time. A rentier state then is any state that can sustain the inflow of large quantities of externally generated rents into state coffers over a relatively long period of time (at least a decade) and which can reasonably expect that such inflows will continue in the foreseeable future.

However, Vandewalle (1998:7) prefers to use the term "*distributive state*" because it more clearly conveys the overwhelming economic activity the state undertakes in what the literature normally calls rentier states". Distributive states, according to his view, because the primary internal economic function is divide among their citizens revenues that accrue directly as rent from the marketing of a natural resource or asset under control. Distributive states do not engage in the extraction of resources from their citizens. Their overwhelming share of revenues is derived from external rent rather than from internal rent, which requires a productive domestic economy. Vandewalle also explained that Libya is one of a handful of truly distributive states in the world and came to represent an extreme example of a distributive state. Niblock (2001:214) underlines of this concept that Libya is distributive state, he says:

> "...there is a durable factor that has been of critical importance in setting the parameters of Libyan policies. This first is the country's economic base. Oil exports began in 1961, and by 1963 oil revenues made up 98.3 percent of the country's exports. Although the proportion of exports accounted for by oil has fluctuated over time, it has since 1963 not fallen below 90 percent. The Libyan state, therefore, is a distributive state rather than a production state, deriving its income from the sale of a commodity and not from the extraction of taxes from

> it population. The vast revenues from oil exports that have accrued directly to that state, coupled with the country's relatively small population, have meant that Libya's economic structure is comparable to that of the oil-producing states of the Arabian Peninsula. Although the Libyan state may create structures that enable popular participation, the balance of state-society power is such that decisionmakers (whether in foreign or domestic policies) can is insulate themselves against pressures from different socio-economic groupings- provided the all-important oil exports are maintained". The "economy's oil base raises a dilemma for Libyan policymakers that is faced by other state with a similar resource base".

Rentier states, however, do not need to tax their citizens for revenues, which has important implications for the relationship between state and society and the way interests are represented and mediated (Luciani,1987). Through its distributive mechanisms it creates social groupings; socio-economic stratification is thus not only a reflection of the forces and relations of production and class struggles, but predominantly shaped by the state's spending patterns.

A prevalent argument of the rentier state literature emphasized the principle of 'no representation without taxation', i.e. a trade-off between representation and accountability for a share in oil revenue, and concluded that a limited availability of rent would reverse the slogan to 'no taxation without representation' and would thus provide an important stimulant to the democratisation process (op.cit).

Many social scientists also assume that there is a positive relationship between the spread of capitalism, a free market economy and democratisation, thus believe in what Offe described as 'democracy by capitalist design' (Luciani,1994) (5). Expenditure cuts entail a loss of instruments of control while "privatisation is a declaration of weakness and sets the stage for the development of civil society, the multiplication of decision-making centres and eventually democratization" (Luciani, 1994).

Overall, if taxation can lead to demands for representation and accountability, then its absence can allow the state to deny representation to social groups. According to this argument, since government expenditure provides the main link between external rents and the domestic economy, domestic groups can only gain access to the rent circuit through state institutions. Instead of challenging the state, citizens will try to gain the governments favour by establishing patron-client ties with powerful individuals within the state structure (Chaudhry,1989).

When external capital pours into the coffers of the state before circulating in the domestic economy, state expenditure provides the main Link between external rents and the domestic economy. In other words, domestic groups, including any potential challengers of the state, can only gain access to the rent circuit through state institutions. This is particularly true for the modern bourgeoisie. In rent-based countries modern entrepreneurial classes are dependent on the financial support of the government. Under rentier conditions, loyalty to the system is the most rational course of action for entrepreneurs (Anderson,1987).

3.7.2 Economic Development in Rentier States

It can be argued that the export of petroleum should clearly enhance state autonomy. In most oil-exporting countries, including all such countries in the developing world, the oil industry is publicly owned, and the surplus thus generated accrues directly to the state giving absolute control over their allocation. As a highly automated industry, oil requires a very small labour force and provides little opportunity for domestic investors. It can be produced without large scale involvement of domestic third actors.

Similarly, the ability of international third actors to influence the inflow of oil rents is undermined by the limited supply and its concentration in a relatively small number of producing countries. This allows the state to not only control production and prices but, also to exercise a high level of autonomy in the allocation of revenues generated by oil.

As pointed out by Hinnebusch and Ehteshami (2002:3) "economic dependency means a major function of foreign policy must be to secure and maximize resource flows from external sources. Because state's revenue bases are exceptionally dependent on external resource- whether foreign aid, taxes on foreign trade, or oil revenues- and not on domestically raised taxes, they may be more responsive to the demands of global powers than to domestic opinion in designing their policy".

Theoretically such a state should be well placed to follow a developmentalist path. It has the necessary political and financial resources that are often seen as obstacles to development in many countries. The experience of oil-exporting countries, however, indicates that resources and state autonomy do not automatically lead to development. Particularly if development is defined as improvements in social conditions, despite their wealth, the performance of the oil-exporting countries has not been spectacular when compared to non-oil developing countries. Despite their very large per capita GNPs by the late 1970s, the performance of Middle Eastern oil producing states was not significantly above average. The performance of each country was noteworthy in the 1960-1975 period when viewed individually, but the significance of the improvements fades when compared to the performance of middle income countries in general.

The oil wealth was not easily translated into improved social and economic conditions. However, the performance of oil-exporting countries has not been great even if one looks at purely economic indicators. Despite their wealth, none of the oil-exporting countries has become a major industrial power comparable to the East Asian Tigers or even to countries such as Brazil. This failure is often attributed to the distortions caused by external rents. The inflow of large quantities of external capital generally has a negative effect on domestic productive activities. Writing about sixteenth-century Spain, Anderson notes that, although the inflow of precious metals from the Americas provided the Spanish State with financial flexibility, it also undermined the economy by creating a premature tertiary sector ,which employed no less than 40 percent of the male population (Anderson,1974).

3.7.3 Legitimising a Rentier State

By the mid-1980s, "it was obvious that there was serious legitimacy problems throughout the Arab World. As the financial crisis in particular dug in, austerity measures brought frustrated and unempowered protesters out onto the streets. So called bread riots, in response to the removal of subsidies on basic goods, spread through Egypt (1977,1984), Algeria (1988), Tunisia (1984) and Libya (1987). As strategies of macro-economic stabilisation and structural adjustment were adopted to remedy the economic crisis, it became clear that such policies were imposition by states of policies, which did not have popular and grass-roots support upon populations who felt that the costs incurred fell unequally and unfairly upon their shoulders. The most obvious problem with structural reform is that its principle aim is to reduce the intervention of the state in economic activity". (Murphy,1998:79).

In other words, "the state is withdrawing from its side of the bargain struck with society that it should play the role of provider. Guaranteed employment is abolished, price subsidies are withdrawn, welfare provision is reduced, public sector salaries are frozen, firms fail under the impact of competition (resulting in growing unemployment), public sector investment in utilities and services is reduced and the individual is thrown back into the market place to earn his survival. Oil wealth has proved to be no barrier to economic crisis and the rentier states in the Arab countries have experienced many of the same dilemmas" (op.cit:79).

The lacklustre economic performance of rentier states when compared to tax-based states presents the ruling states with a crisis of legitimacy. Although in general living conditions in rentier states improve as a result of the inflow of rents, the state's claim to legitimacy based on economic performance is not credible. As it was previously mentioned, despite their wealth, rentier states have not been able to outshine tax-based states when it comes to improving social conditions.

To make matters worse, their dependence on inflows from the international economy means that they have to be sensitive to the health of economies with which they trade. Reliance on the export of oil or other kinds of inflows means that even under the best of conditions, to achieve optimal results the exporting countries have to compromise with the importing nations. As the experience of OPEC has shown, pushing the prices too high can have long-term negative consequences (6).

Economic relations in rentier states are based on distribution not exploitation. As Delacroix notes "... it is possible for a state to be under the control of an elite which does not exploit the population within the jurisdiction of the state because it does not need to... [I]n the absence of surplus extraction, the relation between the elite and the rest of the population is not a class based relation" (Delacroix,1980). In this respect, Vandewalle (1998:7-9) discussed the Libyan case in terms of the distribution concept, he wrote:

> "From the very beginning of its creation, those in charge of the Libyan state possessed considerable autonomy, promoted by the fact that external revenues—first the rent for military bases and then oil proceeds—accrued directly to the' state. This 'arrangement gave both its rulers the luxury not to perfect the state, in contrast to an earlier European context that was prompted by the iron triangle of taxation, legitimacy, and participation. The impact of that relative autonomy in Libya left a profound legacy on how the state expanded. In contrast to the traditional European 'patterns of tax-base spending in distributive states creates large bureaucratic structures that excel at distribution and, to a lesser extent, production, but their regulatory and extractive capacities remain minimal. Particularly after oil revenues entered the local economy, these capacities were of little importance to Libya's rulers".

In distributive states where rulers make few compromises with their citizens to obtain revenues, the nature and structure of political their explosion during the booms of the 1970s further and economic institutions reflect that relative autonomy of the state but, in a highly peculiar fashion. "Because of the unique way revenues accrue, rulers do not have to create elaborate tax gates, rules, or mechanisms to help decide whom to tax, or when, or at what level" (Ayubi, 1995).

The absence of domestic surplus extraction combined with the relatively low level of economic development in rent-based countries strengthens the state by minimizing class conflict. The availability of external rents allows the ruling elite to enrich themselves without restoring to domestic exploitation. At least in the short term rentier states might be able to follow a positive-sum economic strategy where there are no 'losers'. This, however, does not mean that all societal groups benefit equally. However, the unequal distribution of benefits does not lead to class-based challenges to the state. To cite Delacroix again:

> "... challengers will not be able to claim a monopoly of rationality. They will not be able to present themselves as the representative of the progressive forces of history, bent on freeing production from the shackles of a mode of production that has become mired in its own contradictions. Hence, it will be difficult for them credibly to draw inspiration from scientific socialism... the organizational base of challengers in a distributive state cannot be class " (op.cit).

In Libyan context, Vandewalle (1998:155) points out "the failure of Libya's *infitah* "Liberalisation" dramatically illustrates the challenges distributives states face when implementing broad economic reforms-or more narrow liberalisation and privatisation strategies that are meant to reduce the unique and highly peculiar position the state occupies.

Even if rulers prove willing to implement reforms when facing severe fiscal crises, they face more profound obstacles that are related to the nature of economic institutions in distributive states and that are linked to the intertwined economic and political objectives those institutions pursue during boom periods. These obstacles are the outcome of structural and institutional weaknesses that emerge from the state-building process within distributive states. They are particularly revealed when the state attempts an *infitah* during a fiscal crisis, when a greater reliance on market mechanisms rather then on state regulation is pursued".

I would argue here that the Libyan *infitah* should be understood as the result of a combination of political and economic developments that had reached crisis proportions by

1987. However, Libyan liberalisation was not surprising and matched those of several other oil exports in the region. It was clear that throughout the Middle East and North Africa, the global economic recession of the 1980s forced oil-exporting countries to adopt a set of coordinated measures in the pursuit of sustainable macroeconomic polices.

While the resulting reforms and structural adjustments in countries across the region were characterised by a wide variety on intentions and programmes. Vandewalle (1996:204) argued that the underling rational for their adoption was based on two interrelated developments: (1) oil exports had historically grown highly dependent on external capital inflows, and (2) that the continuation of those high inflows was threatened in the mid-and late 1980s. Perhaps the most important among those considerations was an oil glut that dramatically reduced prices and revenues for oil exports. Libya's revenues, for example, dropped from a high of approximately $21 billion in 1980 to $6.5 billion in 1986".

In addition Vandewalle (1998:150-155), has added that "from an institutional perspective, the reason for this is intimately related to the type and scope of activities distributive states undertake during boom periods: they overwhelmingly concern themselves with distribution, a relatively easy that avoids systematic regulation. The purpose of an *infitah,* however, implies the introduction of market mechanisms. It is important, therefore, to recall one of the basic arguments institutional economists have made: to create markets and to make them function properly requires administrative, regulatory, and legal institutions that must be created and maintained by the state.

Where state activity has been limited to primarily distributive activities, "the pursuit of an *infitah* is thus a much more difficult enterprise than simply allowing a private sector to emerge: the state must prove willing to improve its capacities to regulate, to dispense law, to define and enforce property rights, to tax, and to collect information. Moreover, the state must simultaneously reduce its distributive role, create new institutions where they do not exist, and pursue institutional improvements that go substantially beyond abolishing the earlier dirigisme" (op.cit: 156). According to Mugherbi (2004:15):

> "The economic reforms are usually closely associated with the political reforms in the distributive state than in the productive state. In this case the prospect of the interruption of the distributive policies constitutes a main political challenge to the state. Moreover the economic reform is more likely to be implemented through institutions that produce profits for political purpose, simply because the market powers and other competitive processes are almost non-existent in the distributive state. On the other hand, the economic liberalisation mainly depends on the existence of the market mechanism. Consequently, the strategies of economic reform do not imply merely more competitiveness, but also more institutional reforms. However, the economic stagnation is more likely to reflect the overlap between the distributive organisations and mechanisms and the economic and political interests of the groups that have used to benefit from the past economic distribution policies".

The inability of rentier states to legitimise themselves based on their economic role leads them to search for other sources of legitimacy. Despite their wealth, rentier states find it necessary to appeal to national myths in legitimising their rule. As Eric Davis has noted, oil-exporting Arab countries, despite their rentier status, have found it necessary to create national myths by sponsoring ambitious projects to 'rewrite history' (Davis,1991). These efforts are in direct conflict with Luciani's assertion that rentier or allocative states have no need for national myths. He writes, [a]n allocation state does not need to refer to a national myth and, as a matter of fact, will usually avoid doing so (Luciani,1987). Arguably, Hinnebusch and Ehteshami (2002:12) explained that "domestic vulnerability was contained by traditional (patriarchal and islamic) legitimacy and the growing distribution of oil-financed benefits to co-opt the middle class and keep the masses demobilised. Protection from regional threats was provided by the Western great powers".

What alternative structures and myths are available to the opposition is influenced by historical developments. The timing and the manner of a society's incorporation into the world economy and its particular historical process of state formation determine the availability of traditional social structures. In the Middle East and North Africa, Islam has provided the challengers with both an organizational base and a 'golden myth' to rally around. There is no theoretical reason, however, that challenges to a rentier state should be based on religion. Nonreligious structures and ideologies can be as effective.

So far, I have argued that in the developing world the state plays a central role in the economy and economic development. The effectiveness of the state in the process is determined by the existence of autonomous and competent agencies with access and control over the necessary economic resources. Accordingly, I have argued that the autonomy of rentier state and their control over economic resources should make them ideal candidates for spectacular economic development. I have further discussed that the failure to outshine the economic performance of tax-based states creates a legitimacy dilemma and makes rentire states vulnerable to societal challenges. The rentier nature of the state, however, means that the challengers are not economically based. Instead, they utilize non-economic structures and ideologies.

Overall, the rentier state/economy model is still not adequately developed. In fact, even the usefulness of it is questioned. However, there seems to be a consensus that large amounts of externally generated revenues, most importantly oil rents, do create certain opportunities and constraints, and hence, similar structures and policies. Yet the extent of this similarity is in debate. In fact, one of the weaknesses of the rentier model is the fact that it stresses similarities rather than differences. As such it can not account for the variations across time and space. The Libyan case offers a good example of the importance of understanding these variations. The Libyan development has been constrained by the historical trajectory of Libya, especially its colonial past.

With respect to privatisation process, Libya has not been alone in the privatisation process. Over the last years privatisation has been an ongoing process all over the world and became a central part of the economic and political landscape in the Middle East countries. Towards the mid-1990s, most Middle East governments had announced, and even initiated, some reform in this direction.

In general, privatisation has been part of a broader policy process of structural adjustment, which began to change the role of the state in the economy. In this context, Wilson (2004:17) pointed out that "much has been written on the changing role of the state in the Middle East, especially since economic reform and structural adjustment measures were introduced during the 1980s and privatisation during 1990s, the retreat of Arab socialism and increasing tendencies towards globalisation have also resulted in a great deal of reflection on where states are handing. However, the realm issue being how the state itself is defined".

The powerful state of the 1970s, combined with heavy protectionism, began to regarded towards the end of the following decade, as having failed to create the right system of incentives for an efficient economy. It became apparent, instead, that a free market would lead to a more efficient use of scarce resources in developing countries. Economic liberalisation became, then, the policy answer, understood as rolling-back the state, both in terms of its ownership of industries in trade, industry, agriculture, credit and foreign investment.

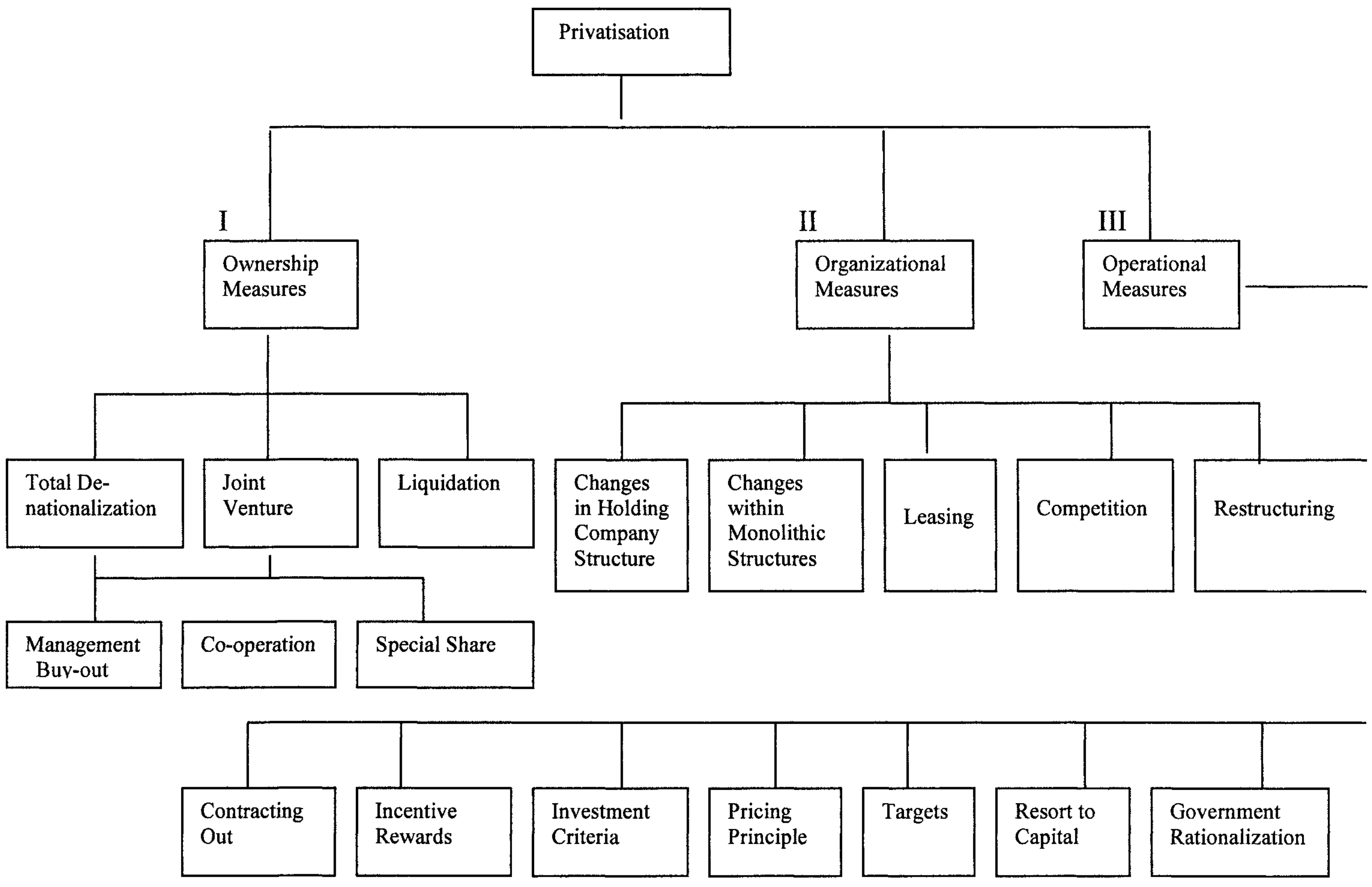
Currently, privatisation and extensive deregulation became the major corrective measures in Libya and emphasis is given that the reason that accounted for this trend toward privatisation and deregulation were connected to changes operating in the international political economy which affect the Libyan economy direction. And also to the lacklustre performance of the state owned enterprises, which became exposed to strong competition with imports. Their production was no longer isolated from international markets.

3.8 Privatisation: Comparison, Experiences and Expectations

According to Sullivan and Zemko (2004:2) "privatisation can be defined in simple terms as the process by which governments sell their SOEs, completely or in blocks of shares, to private investors, local and foreign. Although SOEs are the most common and well-known example, governments can also privatise land, housing (which has been done in Great Britain and elsewhere) and even services. A few cities in the United States, for example, have experimented with privatising education, road construction and maintenance, trash collection and other services by contracting them out to private firms".

More important than understanding the process of privatisation itself is understanding its underlying rationale—that there are limits to what governments can do and that some economic undertakings, particularly industrial enterprises, are handled more efficiently by the private sector". Ramandham (1988) presents the different methods of privatisation in a diagram where he divides privatisation into ownership, organizational and operational measures (Figure 3.1). According to him privatisation could also be described as the transfer of whole public firms, parts of firms or individual assets to private hands. This transfer could take place through sale, through changing it to private legal form or even through contracting out some supply tasks.

Figure 3.1: Different Possibilities of Privatisation



Sources: V.V. Ramandham, Privatisation in the UK. London: Routledge, 1988.

Privatisation, however, can also be used to refer to those measures taken by a government to increase the role of the private sector in an economy. It is in this sense that privatisation was, and is, used in the case of the former socialist economies in Central and Eastern Europe and the former Soviet Union. But it can also be used in the case of a number of Arab economies that are undergoing transitions, albeit of a different kind. Several countries, such as Egypt and Tunisia in the 1980s and Algeria today, are striving to move from a state-controlled and dominated economy to a market-based economy where the private sector plays a much greater role. Other countries, such as the oil rich countries in the Arabic Gulf and recently in Libya have begun to realize the importance of privatisation in diversifying their economic base away from a heavy reliance on the energy sector.

In this section of this chapter, I review the general argument about privatisation worldwide, its many and varied forms and also the short term problems. Section (3.6.4) discusses the British experience in some detail. The UK cycle of privatisation has been running for longer than most others, and is widely looked upon as an example from which others can learn; the programme illustrates risks, advantages, successes and failures. However, there are limitations in the appropriateness of lessons for countries such as Libya and these too are discussed.

3.8.1 Privatisation and Economic Reform

Facing the economic consequences of their heavy reliance on state-owned enterprises, many developing countries have adopted new economic programmes, featuring lower barriers to trade and foreign investment and other measures designed to promote competition and strengthen their private sectors. "In Central Europe and the former

Soviet Union, the collapse of socialism has likewise prompted fundamental transitions toward market economies based on private property and private-sector development. For both of these groups of countries, recent experience clearly demonstrates that privatisation is closely linked to economic reform, and that it can serve as an important indicator of a government's commitment to reform" (Sullivan and Zemko, 2004: 8).

Indeed, it is also clear that, to be effective, privatisation must be implemented in conjunction with reforms designed to strengthen the private sector and create more open and competitive markets and economies. Privatisation is not a panacea for all economic evils, but when undertaken in conjunction with other structural reforms, it may play a significant role in helping countries achieve greater prosperity.

Privatisation programmes may also serve as an indicator of the progress of a country's efforts to achieve fundamental economic reforms. "In 1990-1991, the Center for International Private Enterprise (CIPE) sponsored a survey of economic reform in 32 countries, covering all major developing regions and the ex-socialist countries of Central and Eastern Europe. The survey showed that countries that were successful in launching privatisation programs—such as Malaysia, Chile, Mexico, Jamaica, and Argentina—were also among the more successful reforming countries" (op.cit:10).

However, this does not necessarily mean that an effective privatisation programme makes an overall economic reform programme a success; the key point is that successful privatisation involves the management of all the major elements of stabilization and structural reform. In terms of the core of this thesis, I argue that this thesis offers an explanation of the course of economic reform in Libya as a whole and to this end it reviews the evidence on all the major developments.

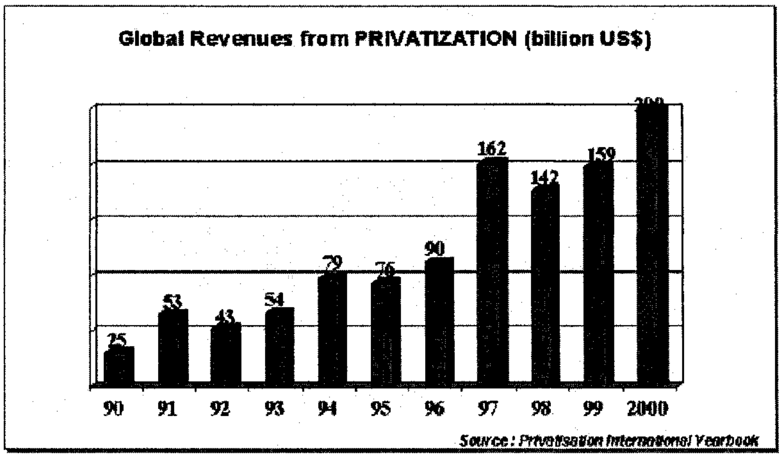
However, not all of their elements are covered in equal detail. Seeking to strike a balance between countrywide generalisations and the need to collect and evaluate thoroughly the rich empirical evidence available, the choice was made to use privatisation as the main testing ground for the explanations offered here.

This thesis is not simply a study of privatisation in Libya, however, relevant aspects such as the role of private sector were examined for their significance for the course of the economic reforms as a whole. In fact, Libyan state currently used privatisation as a showcase for reform and an illustration of its commitment to market economy.

3.8.2 Main Trends in Privatisation

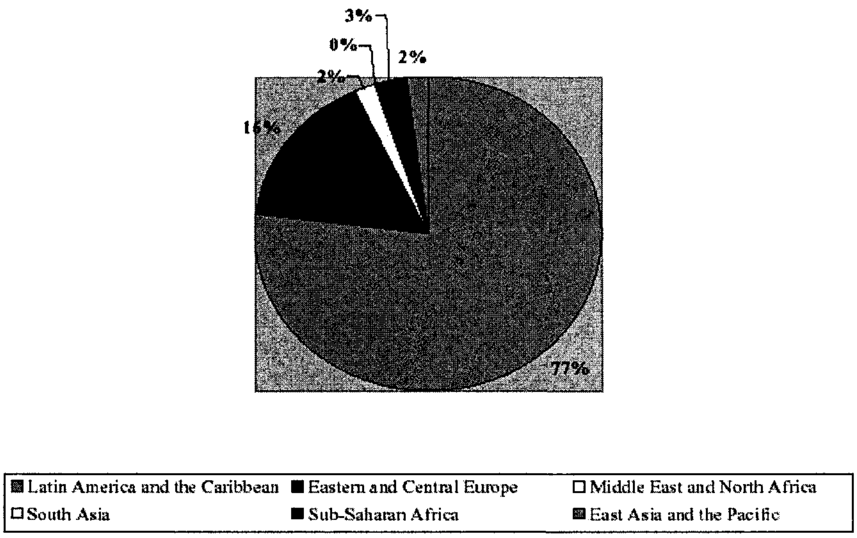
Privatisation has been a growth business all over the world in the past decade. First, the compound annual average growth rate was around 10% between 1990 and 2000, with global privatisation revenues jumping from $ 25 billion in 1990 to $ 200 billion in 2000. Second, the number of countries that have implemented privatisation policies has exceeded 110. Third, privatisation and private participation have touched almost every aspect of economic activity. Finally, and most importantly, after more than two decades of privatisation, there is not one instance of a country that has started privatisation and then reversed gear or even stopped halfway (op.cit:12). Figures (3.2 -3.3) show the global revenues from privatisation in different countries.

Figure (3.2) Global Revenues from Privatisation (billion U$)



OECD countries account for the vast majority of the volume of privatisation proceeds, with Latin America a distant second, followed by Eastern Europe.

Figure (3.3) Developing Country Privatisation Revenues by Region 1998



Source: World Bank Database

Finally, privatization has covered all sectors of economic activity, with telecommunications, energy, and transport accounting for the largest shares of privatization revenues. Telecommunications alone has accounted for an average of 30% of total privatization proceeds in 1994-1997 and around 50% in 1998 and 1999.

3.8.3 Privatisation in Arab States

Countries in the Middle East North Africa "MENA" region have begun to implement privatisation belatedly and, at first, reluctantly. Morocco was the first Arab country to formally endorse privatization as a policy, and was quickly followed by Tunisia, Jordan and Egypt. It is significant that except for Tunisia, Arab countries that started on the path of privatization did so under some degree of pressure from international financial institutions.

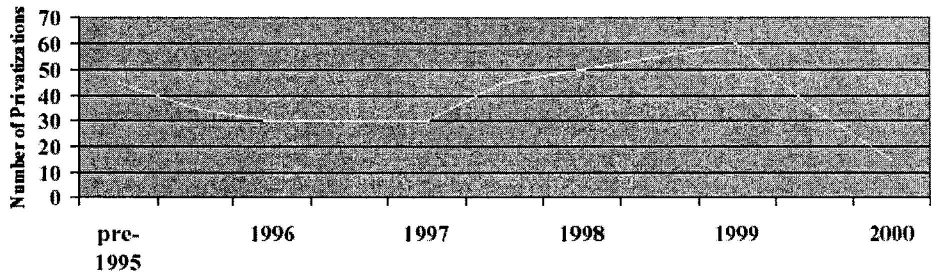
Until recently, privatisation proceeds in the Arab States have been very modest (Table 3.1). It was not until 1999 that Morocco re-energized its privatisation programme. Egypt and Jordan followed suit in 2000, albeit with varying degrees of success. Lebanon and Algeria also joined the ranks of the declared privatisers. In practice, however, there has been very little progress to show for. "Despite the passage of a privatisation law in 1999, Lebanon has yet to implement a working formula for privatisation that delivers transparency and fairness in the process, and professionalism in the execution of the programme. In Algeria, and despite statements in support of privatisation from high-ranking officials, the only progress has been the voting of new legislation in 2001 centralising decision-making concerning privatisation and decentralizing implementation" (op.cit:13).

Table 3.1: Proceeds from Privatisation in selected Arab Countries (USD million)

Countries	1994	1995	1996	1997	1998	1999
Algeria	-	-	9.3	-	-	45.8
Egypt	393.2	261.9	-	855.1	538.7	856.5
Jordan	-	14.7	11.3	32.7	5.1	-
Morocco	346.6	239.7	270.6	716.4	92.2	1,163.3
Tunisia	-	32.5	35.9	2.8	364.4	8.4

Source: World Development Indicators database

Figure 3.4 : Progress of Privatisation in Egypt



Source: Privatization International 2001

The slow pace of privatisation has also been mirrored in the slow opening to private participation in infrastructure (PPI). The MENA region's share of the total investments in PPI in developing countries has averaged 3.4% in 1998 and 1999 (World Bank, 2001). In the period 1990-1998, total private investments in telecommunications in the MENA region amounted to US$ 3 billion, less than 1.4% of the global total. But these numbers hide the fact that there has been progress in PPI even in the MENA region between 1994 and 1999.

There have been, in the last few years, significant PPI transactions, starting in 1998 with the concessioning of the Rabat and Casablanca water and electricity distribution and the sale of two licenses for mobile telephony in Egypt. These transactions have been followed by the privatization of Jordan Telecom and Maroc Telecom in 2000 and 2001, respectively, and by the launching of Independent Power Producers (IPPs) in Egypt, Morocco, and Jordan. In summary, the taboo on PPI has been demolished and Arab governments have realized that PPI is the surest way to endow their countries with a modern, competitive infrastructure, a critical component for further economic development.

Table 3.2 Infrastructure Privatisation Proceeds by sector in MENA (US$ million)

Countries and Regions	Energy		Telecommunications		Transport		Water and Sanitation	
	1994	*1999*	*1994*	*1999*	*1994*	*1999*	*1994*	*1999*
	-	-	-	-	-	197.7	-	-
Jordan	-	-	43	17.8	-	182	-	55
Lebanon	-	-	50	323	-	-	-	-
Morocco	2,300	4,819.9	-	1,240	-	-	-	4,050.9
Tunisia	627	265	-	-	-	-	-	-
Low and Middle Income Countries	40,411.26	140,782.5	49,634.1	181,962.6	25,626.5	71,894.7	8,794.3	24,294.3
MENA	3,131.5	5,784.9	118	3,809.5	-	647.2	-	4,105.9

Source: World Bank Indicators Database

Moreover, as Eystan Sheshinski and Luis Felipe Lopcz-Calva (1999) argued that "privatisation has been a key component of the structural reform programme in both developed and developing economies aiming to achieve a higher micro-economic efficiency and foster economic growth, and to reduce public sector borrowing requirements through elimination of unnecessary subsidies. They believe that microeconomic theory tells us that incentive and contracting problems create inefficiencies due to public ownership, given that managers of State Owned Enterprises

(SOEs) pursue objectives that differ from those of private firms *(political view)* and face less monitoring *(management view)*. Not only are the managers' objectives distorted, but the budgets they face are also softened".

3.8.4 Effects of Privatisation

The global experience of more than 50 developing countries, and countries in transition, has shown that privatisation, in terms of improved profitability and general economic benefits, can indeed work (Data Bank of City Business Library, various years). However, the important factor for investors is to demonstrate flexibility in dialogue with governments, within the bounds imposed by commercial good sense. It can be argued that those private investors who show such flexibility towards the conditions of each country will be the beneficiaries (op.cit).

Here the significant question is how Third World governments see privatisation in the context of globalisation. Generally such governments have tended to resist any change, considering it a threat to their position and status. Most transactions occur in strategic sectors that were traditionally under public control; utilities, natural resources, railways, steel and financial services. Despite this worldwide explosion the state sector remains strong in many developing countries and particularly in Libya where the state-owned enterprises drain national budgets and has dominated many other activities.

Beset by political pressure, the fear of job loses and unsure of their ability to manage the process, politicians all over the world have long hesitated before taking the first step. However, those who have failed to take the plunge are now in the minority. The recent figures from the World Bank suggest that over a hundred countries (including over 75 developing countries) have now launched privatisation programmes, as summarized in the above figures (3.2; 3.3) for the years 1990 to 2000. However, the objectives of privatisation form part of an overall economic development process, often imposed by international donor agencies, such as the IMF and World Bank, as a condition for lending. It is generally suggested that privatisation should fulfil the objectives listed in table (3.3).

Table 3.3: Privatisation Objectives in Both Worlds

Developed Countries	Developing Countries
• Improve die efficiency of the hitherto publicly-owned corporations and important sectors of the economy by restoring market discipline in certain key areas • Reduce stat, involvement in enterprise decision-making and resolve the problems of management and control which so often beset relations with nationalised industries • Reduce state financial burden • Contribute to the development of the domestic financial market • Gain political advantage • Handle inflation and growing unemployment • Transfer ownership to citizens • Ease problems of public sector by weakening the public sector unions	• Improve efficiency, productivity and profitability of enterprises through competition and elimination of stale intervention • Create a liberal economic environment • Relieve budgetary strains on the government • Facilitate access of private sectors to financial resources • Insulate the economy from political interference • Broaden the capital market and widen indigenous ownership • Release resources for social physical infrastructure • Create a more favourable environment for foreign investment • Bring workers and employees into share ownership

Sources: W. Lieberman, 'Privatisation and Themes of 1990' The Colombia Journal of World Business, Vol. 28-1, 1993: 9-17; John Vicker and George Yarrow, 'Regulation of Privatised Finns in Britain,' European Economic Review. 1988, Vol. 32: 465-72; M. Peter Jackson and Catherine M Price, Privatisation and Regulation, London: Longman, 1994: 1-23; Madsen Pirie, Privatisation, Theory, Practice and Choice, Aldershot: Wildwood House Ltd., 1988: 17.36.

Although the majority of goals of both developed and developing countries are similar, the major difference is that the industrialised countries depend on their own internal resources to implement a privatisation policy, whereas most of the developing countries depend upon international agencies to sustain their desire to privatise. Developing countries often lack both social and economic institutionalisation, which may have led to state economic control in the first place. But 'developing countries' vary in their resource endowments and the efficiency of their capital markets. These generalisations are of limited value until we consider UK pattern.

3.8.5 UK Policies Towards Private and Public Sector

It is important to note that only the efficient utilisation of resources can improve the productivity and profitability of industries and that leads to the economic development of a country (Howard, 1992:26-33). Hutchison has studied the economic performance of seventeen British companies, according to the following hypotheses: i) the performance of privately owned enterprises is superior to public-owned enterprises, and, ii) the change in the British government in 1979 had a positive effect upon the business community. The analysis used comparative studies of public versus private enterprises, based on statistical analysis and general trends between ownership and performance (Hutchinson,1992:82-145).

This research shows mixed results; the publicly owned enterprises were found to exhibit higher labour productivity whereas privately owned enterprises produced higher levels of profitability (op.cit). In 1992, the World Bank sponsored a research project in three regions, Europe, Latin. America and Asia. The project involved case studies of 12 major privatised enterprises in the UK, Malaysia, Mexico, and Chile. The results indicated that 11 out of the 12 privatised enterprises examined had improved domestic and world welfare and that productivity went up in nine enterprises, staying stable in the other three. Generality, post-privatisation companies showed higher profits, faster growth and greater access to investment (The World Bank,1992:1-99).

It also interesting to note that organisations such as World Bank and the IMF, in their studies of, and recommendations to, developing countries, have chosen the UK as the exemplar model (Fox Tott and Smith, 2000:108-30). "The United Kingdom has pioneered the largest privatisation programme to date, subsequently becoming a leading advisor and exporter of these ideas to other countries" (Zahariadis,1998:51-54).

The intention here is not to make a simple comparison between Libya and the UK, due to the existence of fundamental differences between the two. The researcher's emphasis is merely on the review of the administrative structure in the UK and an examination of the relevance of a number of those issues to Libya's situation. Public sector enterprises in the UK economy evolved from the nineteenth-century onwards. By early twentieth century, many activities, including housing and emerging telecommunications industry were under government control and ownership. During World War II, many enterprises came under the control of the central government for strategic and defence reasons (Pugh and Flint,1997:3-5). Political division marketed the post-war period when the labour Party favoured nationalisation (7) and public control, whereas the Conservative Party favoured relative denationalisation and liberalisation.

The political dominance of these two parties saw conflicting and competitive policy stances on nationalisation and privatisation. For example, the labour government from 1945-51 succeeded in nationalizing such amenities as coal, steel, electricity and road haulage. The coming to power of the Conservatives in 1951 marked a complete change in policy as the new government set about denationalizing these industries and affirming their commitment to free enterprises and a less centralised state.

This yo-yo pattern was to continue until 1979 when Conservatives began their large-scale privatisation programme throughout eighteen years of uninterrupted power. The recent history on the stance of British governments to (do) nationalisation is summarized in Table (3.4).

Table 3.4: British Government policies towards Nationalization and Denationalisation (1945-1994)

Period	Party in Power	Nationalization and Denationalisation Policies
1945-51	Labour	*Nationalization of*: iron and steel industries. Coalmining, electricity, gas railway, inland waterway, and road haulage industries, Bank of England and Cable & Wireless Co.
1951-55	Conservative	*Denationalisation of*: the iron and steel industries and most road haulage. Sale of council houses under the Housing Actually enacted on 1.8.1952.
1955-59	Conservative	Affirmed its belief in the system of free competitive enterprises and its oppositions to any further measure of nationalization. Sale of council houses.
1959-64	Conservative	Committed to ensure improved commercials standards of operation and less centralization in those industries already nationalized. Sale of council houses.
1964-66	Labour	Extended public ownership and control over steel and water supply industries.
1966-70	Labour	Set up industrial Reorganization Corporation. Transferred the private steel monopoly into public ownership and rationalized its structure. Imposed restrictions on sale of council houses.
1970-74	Conservative	Expressed its total opposition to further nationalization of British Industries and committed itself to repeal the Industrial expansion actually of 1968, which said 'give the government power to use taxpayers' money to buy its way into private industry'. Lifted the labour's restrictions on sale of council houses.
1974-79	Labour	The aircraft and ship-building industries were taken into public ownership and National Enterprise Board was set up
1979-97	Conservative	Initiated a radical programme of denationalisation and deregulation and services.
1997- to date	Labour	Inevitably, the speed and scale with which the privatisation programme was implemented has now left relatively few major industries or businesses that remain as potential candidates for privatisation. The post Office has for some time been viewed as a prime candidate, but full-scale privatisation is politically controversial and successive labour governments have fought shy of taking it on. In December 1998, the DTI ruled out a share sale in the foreseeable future. The London Underground, the last major part of UK rail network still in the public sector, has been viewed as ripe for privatisation. However, in spite of resistance of safety grounds, the government has announced that it intends to go forward with a 'public private partnership' scheme (Announced on BBC Channel 1, 10.00 News, 9 July 2001).

Sources: V.V. Ramandham, Privatisation in the UK. London: Routledge,1988; Nickolaso, Zakriadis, Markets. State and Public Policy, Ann Arbor The Michigan University Press, 1995; Peter Pugh and Carl Flint, Thatcher for Beginners, Cambridge: Icon Books, 1997; Bryan Hunt, Privatisation and the Public Sector. Oxford: Heinemann Educational Publishers, 1995; Data Bank of the City Business Library, London; Lord Norman Lamont, Chancellor of Exchequer during the John Major's state (personal interview at 12th May 2000, London); The Financial Times 1st May 2001.

Notes

• Sir William Beveridge (Director of London School of Economics 1919-37, and later Master of University College, Oxford, government advisor during WW-IL Member of Parliament and House of Lords) had suggested in his report to the House of Commons in 1942, due establishment of the Welfare State. In his view social insurance should be a part of a general policy of social progress. Social security can only be achieved through co-operation between the individual and the state. He suggested dust special benefits should be provided for unusual expenses in connection with birth, marriage and death, and pensions and free medical service should be available for all.
• Notwithstanding the decision to rule out full scale privatisation of the Post Office and London Underground there remains probably more than £25 billion of privatisation potential locked away including the BBC (worth around £8 billion) and the Crown Estates (25 billion). Other potential candidates for privatisation include the Tote (Horserace Besting Totalisator Board), The Royal Mint and NATCS (National Air Traffic Control Services).
• In the above table the "other" shares of the companies include; Amersham; International, Association of British Ports, Wyeth Farms, Sealink, Arrow Ship, International Aerodio, Ferranti. Fairey Engine etc.

The Thatcher government instigated a programme of privatisation which turned more than 60 major (and dozens of smaller) businesses over to the private sector and which has produced nearly £70 billion for the UK treasury over the past 20 pars. Broadly, this scheme fell into three phases. It began with the privatisation of industries, which operated in already competitive markets, like Amersbam International in February and Britoil in November 1982. The next stage saw the privatisation of the larger utility companies like British Telecom, which was sold in November 1984 followed by British Gas in December 1986. The final stage involved the privatisation of those companies, which either needed considerable re-organisation in order for them to compete in the market place or which provided a socially desirable service. These included British Coal, the various subsidiaries of British Rail, and some parts of the civil service infrastructure (City Business Library,2000).

3.8.6 Key Stages in The UK Privatisation Episodes

The UK privatisation programme has been implemented through an organized plan and certain stages. John Moore called them three basic parts, such as "managing the successful transfer of business for public to the private sector in line with objectives that I have described is a lengthy and complex process. It may take two or three years and it can be divided into three basic parts. First, candidate must be identified, the necessary parliamentary authority obtained, regularly structures developed if they are needed, and national objectives secured. Secondly, the companies themselves must be got into a position where they will survive and flourish in the private sector. This may mean injecting new talent, introducing new systems, and reorienting the business to reorganize that its future survival will depend on the service that is given to customers. Thirdly, when market the company is ready, it must be sold to its new owners at price, which fairly reflects the exchequer's interest, we do all we can to ensure that the price is the best that can be obtained in the circumstance of each sale" (John Moore, 1986:3).

These can be further extended into four key stages of the privatisation process regarding the assets sales, which are as under Table (3.5):

Table 3.5: Typical Steps/Stages to Privatisation

Identify	Public Sector Enterprises Or Corporations
Stage 1	Feasibility Study Analysis of Options Decision for Options/Modes
Stage 2	Selecting Advisor Organizational Set up Regulatory Framework/legal aspects
Stage 3	Financial Adjustments Restructuring Enterprises and Corporations
Stage 4	Selecting sale Advisors (J) Final Decision and Transfer of Ownership (Sell)

Source: Developed from Moore J, 1986 and Ramandham V, 1988

In 1979, when the government decided to privatise the state –owned enterprises, its first task was to identify the 'right' candidates. Then it hired management consultants and merchant banks to undertake a comprehensive feasibility study and privatisation action plan for implementation. This study had to consider all the relevant factors, e.g., financial availability, growth potential of the national economy, political stability and a consistent favorable economic policy. Next came the selection of consultants and advisors in the areas of share and assets evaluation and underwriting, stock brokering and financial aspects. After finalisation of the structural adjustment, a regulatory framework for monopolistic companies was drawn up to enable them to be transferred from public to private. At the final stage of the process, advisors for sale were selected (i.e., brokers, solicitors, merchant banks and advertisers). The implementation of privatisation by these agencies requires coordination within the public administration.

Although Britain privatisation programme has been widely praised and imitated worldwide, at domestic level, there is a substantial criticism from opposition parties regarding huge executives pay rises, excessive price charges for the services and all services and the sacking workers and even cutting their wages. Even past supporters and investors who made billions from this programme began to criticize. Mr Major's government had to drop some of its privatisation plans such as post office.

UK privatisation programme is a long incremental development process, with variety of objectives, which have differed from time to time and industry to industry. As Bishop and Key (1994) noted:

> " At different time, each of these objectives – revenue, efficiency, finance, wider shareownership – has been sacrificed for others. There has been no consistent rational for the policy of

> privatisation, rather has appeared to meet particular political needs at particular moments in time".

However, this complicated programme and process has significant impacts on economic, companies and community, and provides several lessons for many developing states.

3.8.7 Concluding Remarks: Lessons from the Experience of Others

The privatisation movement swept through the world during the 1980s and became a global phenomenon. Lady Thatcher took a lead it putting the concept into practice, which set an example and has prompted countries worldwide to use it as a model for their own policies. The United Kingdom was the pioneer in selling major state-owned utilities into private hands through stock market flotation in order to transfer the ownership of public companies to millions of shareholders.

The major emphasis of privatisation was to promote wider share ownership and receipts generation to meet deficit requirements. The UK government chose the cases for privatisation carefully to achieve political and commercial success. Arguably, they sold public assets off below their market value to encourage buyers, and they avoided selling off assets (like nuclear power) where there was a real risk of failure.

Although they are often portrayed as part of an ideological drive, British privatisations were pragmatic. Furthermore, significant parts of the total economic activity were overseen by the state through the use of economic apparatuses such as interest rate and taxation policies, or. If ownership was relinquished, control was maintained through regulatory activity. The sophistication of British privatisations may not be directly relevant to a developing country policy, but they give examples of possible ways forward and their economic effectiveness.

As a lesson, it is important to mention that privatisation is not a panacea for all economic ills. It solves many problems but also creates many more. Even in a country like the UK, which is pioneer of privatisation, the strategy was neither simple nor straightforward. It needs to be emphasised that the UK is a good example of a balanced economy, with established democracy, public institutions, full respect to ownership and wealth accumulation, a measurable history, where for centuries the economic activities have been mainly in private hands, and the economic models were tailored according to the needs of the time in a prevailing culture which was flexible enough to accommodate national and international changes.

In spite of all these plus points, this country faced some resistance and delay in implementation of privatisation programmes. This type of 'semi-ideal' situation does not exist in developing countries. It indicates how difficult it would be to implement an imported model of privatisation in countries such as Libya with unstable capital formation, high risk ranking, minimum social security, low population growth, high unemployment, with an under-developed economic and institutional set up and also ambiguity in the definition of ownership and a history of confiscation especially in 1970s, whilst at the same time placing emphasis on Islamic values and national autonomy. However, it does not detract from efforts to implement such a model; rather, it requires lessons to be learned from the experiences of other countries.

The first and most important lesson to learn from the UK privatisation policy is the need for strategic clarity. This involves setting and ranking objectives explicitly and then designing a privatisation strategy accordingly. The UK government has never ranked its objectives explicitly. "The privatisation policy was adopted peripherally but in the end became politically central" (Bishop and Kay, 1988:45-56). As Veljanovski has noted, the objectives of privatisation evolved with the passage of time, and the emphasis given to particular objectives has been varied in each individual (Veljanovski,1988:191-220).

Bishop and Kay (1989:643-657) echoed this point "At different times, each of these objectives - revenue, efficiency, finance, and wider share ownership - has been sacrificed for others. There has been no consistent rationale for the policy of privatisation; rather it has appeared to meet particular political needs at particular moments in time".

It is important to realise that privatisation is a political process, and governments should expect opposition to emerge at several stages. Opponents may well argue that it is better to keep a given corporate candidate in the public sector, they may oppose the details of the sale and the valuation and justice of the system chosen. For example, a long campaign to block the sale of British Telecom by its union failed: 99 percent of the employees took up shares in the issue although the union told them not to. The allure of free and discounted shares in a successful enterprise usually triumphs over ideology. Nevertheless, there are still concerns over huge executive pay rise, excessive price charges for services, wage cuts and sackings for the workers.

There will be positive and negative features of any privatisation process. One positive feature of the UK model was that the advisors, legal experts and professional accountants charged with setting up the privatisation were selected from the market place. However, numerous things can and do go wrong in implementing a large and sophisticated privatisation programme. Criticism is most commonly directed at the pricing of a public offer for sale. In these circumstances a government has to decide whether its aim is wider ownership, in which case it will need to chance a fixed price offer and may well end up selling the shares a little on the cheap side, or whether valuation is the only thing that matters, in which case an auction will have to be introduced.

There is always the danger that an enterprise that has been privatised will do badly or even fail in the private sector. If the industry has been made fully competitive and the right structure has been put in place, the failure of this business need not be of any great detriment to the economy as a whole. However in the case of a utility monopoly that has been privatised and is getting into difficulties, the policy implications would be more profound. This has not yet happened, and there is no reason why most privatised monopoly utilities should not remain profitable, even with price and quality of service regulations, given their central position in the economy and the price elasticity of demand for their product.

The methodology adopted for UK privatisation possessed a number of desirable features. The government established regulatory bodies for some companies such as utilities, to supervise the customers' interests. Some companies were unable to operate in a wholly commercial environment because they were operating socially desirable services (e.g., British Rail), often reliant on subsidy from government. In order to privatise such companies successfully, new relationships between the public and the private sectors were established, for example to target subsidy only at those services where direct support was essential.

Appropriate methods were adopted for the marketing of shares, both to retail and institutional investors, whether by advertising; direct mailing campaigns, research or road show programmes. The final share prices were fixed and were allocated between investors of different classes. To encourage the small investors to take part in the privatisation programme, the UK developed a range of special incentives designed to enhance interest in purchasing and holding shares. A number of these have now been adopted by other governments as they also implement larger, utility company, sales, and seek to attract the retail shareholder. These incentives have taken four main forms: i) share payments in instalments, ii) share bonus arrangements, iii) discount on the second and the third instalment, and, iv) the issue of sale vouchers.

As a generalisation, growth and productivity depends on scrotal and industrial trends rather than ownership *per se.* The privatised companies, which grew rapidly after privatisation, e.g., Amersham, BT and C&W were growing before privatisation as well. Again, this suggests a more complex view of factors influencing company performance of which ownership has nowhere been shown to be the key factor.

The British government and others proclaimed the UK privatisation programme as a template for other countries but this may not be true especially for countries like Libya where there are clear differences in the level of infrastructure development, and in the socio-cultural and political system. The UK privatisation experience was founded on a long history of political, economic and social stability, respect for the entrepreneurial ethos and the rights of the individual that allowed financial institutions to develop and flourish in an environment regulated by an independent judiciary, which allowed the UK to be a leading contributor to rationalisation and globalisation. The major lesson for Libya is that there is a need to adapt and tailor these development models into its existing cultural and economic framework and gradually harness this to a committed privatisation process to deal with the major economic and administrative problems that mentioned in chapter 4.

The analysis made in this section of this chapter reflects the fact that the developed and developing economies and cultures have different social and economic priorities, which may require different routes to reform. The industrial countries already have well-established social and economic infrastructure and their motives are to maintain and renew the system. Whereas the developing countries are in the process of planning and development, and it will take significant time to reach an equivalent level.

The objectives of public enterprises are not clearly defined, and limited operational autonomy within enterprises inevitably has a negative impact on efficient internal operation. The public sector needs to improve efficiency, the return on investment, control losses, and seek expansion of services, infrastructure and institutional development.

Privatisation provides an effective way of achieving these goals, providing that there are safeguards against corruption, monopoly or cartel-like activity which abuses its market power, and providing that assets tied into public-sector activity can either be used more efficiently or released for other productive use.

Privatisation in developing countries such as Libya has to respect a timetable, which does not swamp existing capital market or hand control of national assets over to foreign interests wholesale. But it also has to work, and to be seen to work, without getting bogged down in bureaucracy or corruption, and some external involvement is inevitable. The issue is not only one of cost; it is also one of risk. Risks here are social, political, economic and financial. And, both risks and costs are much harder to calculate in the developing country's context. The difficult balance between the two has to be faced.

The road to privatisation is not easy, and it will not come about by itself. First and foremost, it requires a strong stable political will and the highest commitment from policy makers. Political leaders need to make extraordinarily tough political and economic decisions while in office. Privatisation also requires the respect and the understanding of business leaders as a good image of owners of wealth. Its success depends on their willingness to take risks and their faith in the future of their country. Finally, privatisation can succeed only when the private and public sectors collaborate.

End Notes

(1) Mahdavy (1970) defines a rentier state as one receiving "on a regular basis substantial amounts of external rent", where as Davis (1987) sets " the dividing line at about 90 percent [of total revenues]; Gause (1994) at "certainly over 50 percent, in the Gulf monarchies usually over 75 percent. Chatelus (19840 distinguishes between rentier states and those that demonstrate "rentier-oriented" behavior; Luciani refers to them as allocation states; while Beblawi (1987) distinguishes between rentier and semi-rentier states. It is not clear why countries like Jordan and Syria should be included in the category of rentier states. Although at times these countries have been able to generate substantial quantities of external rents, such inflows were maintained over relatively short periods of time mediating against any possible long-term effect that rentierism might have.

(2) Thomas Stauffer, Hazem Beblawi, Giacomo Luciani, Mahmoud Abdel-Fadil, Michael Chatelus, Hamid Ait Amara, Dirk Vandewalle, Larbi Jaidi, Hesham Garaibeh, Afsaneh Nafmabadi, contributers to The Rentier State,, vol.2, Nation, State and Integration in the Arab World,ed. Hazem Beblawi and Giacomo Luciani, London: Croom Hem,1987).

(3) The term "Dutch Disease" refers to the adverse effects on Dutch manufacturing of the natural gas discoveries of the 1960. However, the Dutch manufacturing sector experienced a loss competitiveness, particularly export competitiveness, because of an overvalued currency due to the strength of Dutch hydrocarbon exports (Wikstrom and Österberg, 2003).

(4)) There is no agreement on what constitutes a 'substantial portion." Luciani proposes a threshold of 40 percent. However, he seems to have arrived at this number quite arbitrarily. Furthermore, setting a threshold seems to suggest that countries can oscillate between rentierism and non-rentierism over relatively short periods of time as the portion of external rents in state revenues change. If one is interested in the performance of institutions, however, a longer perspective is necessary. See Giacomo Luciani, 'Allocation vs. Production States: A Theoretical Framework', in Rentier State, eds. Hazem Beblawi and Giacomoo Luciani (London: Groom Helm, 1987).

(5) Quoted from Offe, 1992. In this context one has to distinguish between political liberlaisation and democraisation. Political liberalization implies the successive reduction of political and ideological coercion but does not necessarily entail political participation or control over public policies. In the definition provided by Rex Brynen political liberalization "involves the expansion of public space through the recognition and protection of civil and political liberties, particularly those bearing upon the ability of citizens to engage in free political discourse and to organize in pursuit of common interests" (Brynen, 1995).

(6) In the case of oil, the initial success of the exporting countries to push up the prices during the boom period of the 1970s contributed to an economic recession in the industrialized world. Inflationary pressures in the West in turn meant chat the oil-producing countries bad to pay higher prices for their intestinal and consumer imports. The long-term effects have been even more serious. Higher oil prices prompted the industrial world to institute energy conserving programs and to develop alternative sources of energy. The consequence has been that the price of oil in 1998 is barely higher than its price in 1974 in absolute term

(7) following the coming to power of the labour party in may 1997, it took a step further with a new emphasis on public Private Partnership (PPPS) and implementation of Private Finance Initiative (PFI) and originated Partnership UK (PUK) for implementation of PPP/PFI. Its aim is to provide recourse at the early stages of a PFI/PPP project on order to improve the formulation and development of transactions. It is the government's belief that Partnership UK (PUK) will help to create a flow well- structured projects that will result in reduction in the cost of delivery of projects and will speed up their implementation. The government has indicated that it expects PUK to grow, over time, to become a billion-pound company. The public and private sectors will contribute the initial capital base in equal amounts. The government will make an initial capital injection and will provide additional financial support (which is likely to be in the form of guarantee). Private sector capital will be drawn down on a phased basis to meet on-going requirements. Partnerships UK (PUK) will also borrow from the financial markets. PUK will be majority

owned and controlled by the private sector, and will thus be a public-private partnership. See: HM Treasury (Various).

Chapter Four The Rationale For Change In Economic Policy In Libya

4.1 Introduction

Starting in the mid 1980's there has been a dramatic transformation of economic policy in the Middle East and North Africa. Nearly all countries in the region have adopted structural adjustment programmes that aim to liberalise and privatise their economies, albeit to varying degrees and intensities. Libya was one of them. Since 1987 the Libyan state has announced various measures to reform the domestic economy. Taken together these measures point to a slow but cumulatively drastic, change of direction in Libya's economic policy, called for an increase in private economic enterprise and criticised state agencies for inefficiency and corruption. These announcements obviously pointed to a significant re-evaluation of many of the earlier policies of the Libyan state.

In order to identify what had happened and what type of factors leading to these announcements, how can we explain the timing, the extent and the nature of these proposed policies? This chapter attempts to answer these questions. It begins with analysis of the international context and strong economic, political, and ideological pressures emanating from it. This will be followed by an analysis of the domestic situation. Here special emphasis is placed upon the effects of the state's commercial and development policies that were adopted during the boom years; to Libyan involvement in Chad and military expenditures. Accordingly, the influence of the external and domestic factors can be determined as follows:

4.2 The International Environment:

There are crucial aspects of the international environment which was affected Libyan foreign policies. These aspects presented as follows:

4.2.1 The Fiscal Crisis in Libya and the Response

In mid-1986 the price of oil collapsed. Spot oil prices, which averaged approximately 27 dollars per barrel in 1985, fell to less than 10 dollars in 1986. Given Libya's dependence on oil revenues (nearly a third of GDP and more than 95 percent of exports) the oil price collapse caused serious cash flow problems and in general had adverse consequences for the economy. The oil revenues fell from 22 billion dollars in 1980 to some five billion dollars in 1986. Therefore, it seems obvious why one year later in 1987 the Libyan government announced policies to make some changes in the economy.

Yet, in order the understand why certain policy choices were made rather than others one has to go further back and examine the dynamic relationship between the external and internal environment of Libya from the beginning of the 1980's. In other words, although the 1986 oil price collapse explains for the most part the *timing* of these announcements it does not explain the *scope* and the *nature* of the policies.

"The slump in the oil market had started in 1981, before it reached its lowest point in 1986. Since the end of 1980 there had been a decline in world oil consumption and especially a great fall the demand for O.P.E.C oil from a peak of about 30 million per day mbd in 1979 to about 17 mbd in 1986. The reasons for this were several: recession in the industrialised countries; heavy stocking of oil by the importing states; conservation; energy substitution; and the shift toward non-OPEC oil, particularly oil from the North Sea and Mexico"

(George,1988:29). The oil price increase after the Iranian Revolution further accelerated these trends. Finally, during the first eight months of 1986, OPEC pursued a strategy to increase its market share, which implied, as an unavoidable consequence, a substantial drop in crude oil price (for more on 1986 oil price crisis see Mabro (1988). The negative effects of all these developments were aggravated by the recession in the international economy.

Parallel to these developments the problems in the Libyan economy also started before 1986. Oil production went down from two mbd in 1979 to 1.2 mbd in 1981 and 1.1 mbd in 1982. Besides production the price of Libyan oil also dropped. The twin pressures of diminished output and lower prices had a damaging effect on the Libyan economy. Export revenues were more than halved between 1980 and 1985, before almost halved again in 1986. In fact, by 1985 the oil revenues had fallen to their lowest level since the first O.P.E.C price shock: they went down from 22,527 billion dollars in 1980 to 15.7 billion dollars in 1981 and 14.35 billion dollars in 1982. In the period between 1980-1986 Libyan GDP declined from 35,500 to 24,000 dollars and average GDP per capita fell from 10,900 dollars in 1980 to 6,404 dollars in 1986 (George, 1988:29).

Meanwhile, the fall in the value of dollar meant a substantial decline in the effective purchasing power of Libya oil revenues. In a country like Libya, which is very much dependent on exports and imports, this created difficulties in the balance of payments. Indeed, the balance of payments surplus shrunk from 11.55 billion dollars in 1980 to 168 million dollars in 1981. The current account surplus, on the other hand, halved from 1980 to 1981; from 8,2 billion dollars to four million dollars. Moreover, since 1980 there had been a constant decline in GDP in real terms. In 1981 the real GDP dropped 18 percent.

The state's first response to increasing economic problems was to address the imbalances in the economy. To that end several strategies were developed to deal with cutting imports: Especially after the 1973-1974 oil price increases Libyan imports had increased drastically. Now that the oil revenues plummeted the state decided that it could no longer continue to finance this high level of imports. Therefore, it started to implement severe import compression.

Since 1982 an import budget has been prepared at the beginning of each year to control outflows of foreign currency and the growth of consumption. Some items were excluded altogether from the budget as they were regarded as "unnecessary". The Secretariat of Economy issued its first ordinance in 1982 banning the import of 82 categories of goods, including cars for sale, ceramic goods and silverware (Africa Confidential, 6 January 1982:7). Each year the list was expanded to include other goods that were regarded as "unnecessary".

Many consumer goods including television sets, furnishings, air conditioners, radios, video cassettes, office equipment, kitchenware, and furniture were added to the 1982 list in the following years (EUI, 1983:15; Ghanem,1985: 228). For "necessary items", on the other hand, the import budget introduced quotas each year. The Central Bank had become more and more strict in issuing letters of credit to state importers, restricting imports of all goods (EIU ,1985:11).

Table 4.1: Total Imports and Its Components for Libya 1980-1991

(L.D million)

Year	Imports of Consumption	Imports of raw Materials Goods	Imports of Capital Goods	Total Imports
1980	387.7	157.7	1461.5	2006.9
1981	449.8	175.3	1856.3	2481.4
1982	339.0	145.7	1639.6	2124.3
1983	316.4	180.8	1287.6	1657.7
1984	295.4	137.6	1408.7	2505.7
1985	206.8	096.0	0911.6	1706.0
1986	239.2	109.0	1151.8	1396.8
1987	227.1	136.1	0914.9	1556.2
1988	263.2	157.0	1265.2	1685.4
1989	297.9	145.7	1031.3	1475.0
1990	342.6	138.7	1029.6	1510.9
1991	354.4	156.1	0994.9	1505.5

Source: - Ministry of Planning, Department of National Accounts, National Accounts, Libya, (1992-1994) Ministry of Planning Annual Foreign Trade Statistics, Libya (1993). Central Bank of Libya, Economic Bulletin (1993).

The measures were to some extent successful in curtailing imports (Table 4.1). In practical terms this meant a restriction on Libyan purchases of basic commodities including medicine and medical equipment, food and spare parts for industrial and agricultural machinery. Restrictions on what the state called "unnecessary" items also created dissatisfaction. In this respect, Mohamed (1997:21) argues:

> "It has been felt in the years, 1976,1982,1983,1984, 1985 and 1987, which can be attributed to the political instability in those years. The high rate of population growth, the high rate of urbanisation, improvements in the standard of living, the expansion of electricity networks to the rural areas and the failure of the local production industry to meet the increasing demand for such goods were the major factors, which caused Imports of consumer goods to rise. Imports of raw Materials and international goods increased steadily and reached a peak in 1983. The decline of raw materials imports can be attributed to the policies adopted by the government, which encouraged the establishment of industries using local raw materials and intermediate goods".

In fact, ownership of consumer durables had been rising very fast in the country. Especially passenger car ownership was extremely high; in 1981, 55 percent of households owned a car. Therefore, in a country such as Libya, where 70 percent of food and practically all consumer goods are imported (Henderson,1986:73) the consumers were the hardest hit by the cuts that were made in the import budget. Since the "consumer import budget" constitutes 60 percent of the whole budget (the other 30 percent is the "capital goods import budget"), the cuts that were made directly affected them. The consumers were, actually, the target of this policy. The Libyan leader, in his speech to the G.P.C (General People's Congress) stressed the importance of and the need to decrease consumer spending:

> "....there must be economy in spending and move toward production. One must not seek the ownership of cars or money. No, one must produce, produce grains, fruit, vegetables, meat, milk, eggs. These are the things towards which we must now orient ourselves" FBIS-NES (1986:Q15).

No mention was made about the military budget which comprises a considerable portion of Libya's import bill, yet is not included in any budgetary figures, as (Ghanem,1985:288) argues "decreasing oil revenues affected the country's ability to continue its "guns and butter policy" and resulted in change of priorities for the state. Under new circumstances it adopted a new policy of more guns, less butter, which meant that military expenditures would not be subject to any reductions and that any economies would be directed towards consumption".

In terms of the austerity to development budgets, the revenue slump came at a time when the state had either initiated or planned to initiate major development projects. In fact, advanced orders for development projects had already been placed. This meant that development spending was going to skyrocket when the oil revenues were in a constant decline. Therefore, the state attempted to scale down its plans and re-evaluate its priorities.

First of all, the development budgets had been cut from LD. 2,740 million to LD. 2,370 million in 1983 and LD. 1,700 million in 1986 (Table 4.2). Secondly, the value of project contracts was decreased (Table 4.3) thirdly, starting in the mid-1980's development projects were subjected to more vigorous cost and benefit analysis (Lenaghan,1989:123).

Table 4.2: Development budgets, 1981-1986 LD million (1$=LD 0.30)

1981	1982	1983	1984	1985	1986
2,740	2,644	2,370	2,110	1,700	1,700

Source: The Africa Review, 1990.

And, finally, a number of development projects were scaled down or postponed. Especially in the field of construction several ambitious plans for railways, ports, airports and urban development were cancelled. In 1985 alone approximately 300 contracts were cancelled as they were considered as "non-essential". During 1985-1986 the 800 million-dollar fertiliser complex at Sirte City was the Great Manmade River (G.M.R) project that started in April 1984 with the aim of creating self-sufficiency in food and water.

This is a 1,300-mile water pipeline system designed to bring fossil water from the Sahara to Libya's arid coast for irrigation and urban use. It is composed of five stages to be completed in 1995 at a cost of over 25 billion-dollar. Despite decreasing revenues the state remained committed to the G.M.R since it regarded the project as the only solution to Libya's food dependency and water shortage. Therefore, the G.M.R budget was never subject to the austerity measures and payments to contractors were made on time and in cash. Because of the unpredictability of oil revenues most of the G.M.R was being financed by taxes. At the inauguration of the G.M.R. furthermore, Libyans were asked by Col.

Qathafi to give up a month's salary every year and to bear a 20 percent rise in petroleum prices and increases in direct and indirect taxation (The African Review,1984:183).

Table 4.3: The Value of project contracts signed by the Libyan authorities 1981-1982

Sector	1981	1982
Industry	1467.3	45.7
Oil Industry	381.1	85.4
Agriculture and irrigation	553.3	132.7
Water and electricity	684.6	593.3
Housing and construction	6160.8	244.2
Transport and communications	1870.4	120.4
Health, education and welfare	335.5	144.6
Miscellaneous	373.7	7.3
Total	11826.7	1373.6

Source: Libyan Central Bank, 1985.

This was an additional burden for Libyans whose per capita income had declined from LD. 11,810 million to LD. 7391 in 1984. Moreover, the diversion of available funds to the G.M.R has left its mark on the rest of the economy (The African Review, 1986:161).

Regarding the Settlement of debts, the OECD and the Bank of International Settlement estimated Libya's foreign debt at the end of 1983 to be 2.8 billion dollars. This is, certainly, relatively low compared to other Third World countries. The Libyan state preferred not to borrow in significant amounts from the international banking system to finance its current account deficit. In fact, most of Libya's debt had been trade-related and very little of it involved bank loans.

The major problem was the debts owed to the foreign contractors. These were estimated at four billion dollars in 1985. To ease the problem of cash flow the state resorted to non-payment of its debts to foreign contractors. Some contractors threatened to stop work on certain contracts if debts were not paid to them. Libyan officials tried to force contractors to take payment in oil.

Negotiations continued for a long time since the contractors did not want to buy the Libyan oil at the artificially high price that Libyan government wanted them to pay. At the end, the government reached barter agreements with some of the debtors. As an outcome of such agreements increasing amounts of Libyan oil started to be committed to barter deals.

In terms of foreign workers, the sheer number of expatriate workers in Libya started to become an issue of particular discontent in the period of austerity. In several of G.P.C meetings the issue came up and suggestions were made to decrease the number of expatriate workers in Libya. Stopping the growth of the level of private transfers, mainly workers remittances was seen as another way of balancing budget (Remittances by foreign workers reached to 2,000 million dollars in 1980).

Therefore, this area constituted one of the policy responses of the state to the economic difficulties the country was facing. First, the state cut back invisible outflows and remittances by foreign workers. Severe limits were placed on the percentage of income that foreign workers could repatriate: from 90 percent of salary in 1980, the ratio dropped to 70 percent and finally to 30 percent in 1984. Then it resorted to the expulsion of immigrant labourers. This practice reached its peak in 1985 when the government expelled or laid off more than 120,000 foreign workers, 30,000 of them Tunisians (Day,1992:690). Incidentally, this event resulted in the souring of relationship between Tunisia and Libya and an eventual breakdown of diplomatic relations in September 1985.

As a consequence of these policies the number of expatriate workers decreased from 569,000 (36 percent of the total labour force) in 1983 (1) to about 200,000 in 1987. Nevertheless, the expulsions' immediate effect was to accentuate rather than relieve the economic difficulties facing Libya. Although the government was careful not to expel highly qualified workers, the workers who left provided essential consumer and public services. They were working in the agricultural sphere. In other words, they worked in the areas in which Libyans themselves were not willing to work. What happened as a result of government's policy of expulsions "was that streets were unswept, garbage was uncollected consumer repair services had vanished and farm labour had been severely cut back" (Henderson,1986:73).

With regard of oil policies and bargaining with the MNCs, the state also implemented some oil policies in order to prevent further decrease in its oil revenue. In late 1981 and early 1982, when oil prices started to drop the Libyan government insisted on keeping its crude oil price higher than all its competitors in order not to decrease its revenues. As expected, international oil companies working in Libya were not happy about this and were not prepared to go along with it. This resulted in a further drop in oil production. The introduction of the U.S embargo in 1982, which among other things banned imports of Libyan oil to the U.SA, worsened Libya's bargaining position. In the same year one of the U.S. oil companies Exxon (2), decided to pull out of the country. In June 1984 remaining oil companies started to abandon the Libyan oil fields. Total oil output in the first three weeks of July 1984 plummeted (Africa Contemporary Documents,1986B:57).

As a result of these developments Libya agreed to offer a tax-relief to equity holders in its oil fields. The oil companies started to buy Libyan crude at the discount offered by the

National Oil Company (N.O.C) of Libya of two dollars a barrel off official prices. Later Libya also cut the actual selling price by a total of 80 cents per barrel. Only after that did oil production rise to the ceiling agreed to by the O.P.E.C (Africa Confidential, 6 January,1982 :7). In return the Libyan state insisted that the oil companies in no way retrench investment or cut back projected development in exploration and extraction.

In terms of drawing on foreign reserves, the government also used some of its savings to finance its debts and spending. Some gold assets were cashed and the state started to draw on its foreign reserves. As a result reserves had fallen steadily from a peak of 13.1 billon dollars (excluding gold at the end of 1980 to 3.6 billion dollars by the end of 1984 (EIU,1985:10).

In September 1986 Libya also sold its 15 percent stake in Italy's Fiat Company for 3.2 billion dollars. The holding originally had cost Libya 300 million dollars. The sale was made not only to take advantage of this substantial increase in value and to help with the cash flow problem, the U.S. administration had been threatening to bar Fiat from any U.S. defences contracts unless the Libyan share holding was removed. Therefore, the sale was also motivated by the fear that the Italian government might freeze the Fiat assets as a result of U.S pressures (EIU, 1990:3-9).

Therefore, the Libyan state adopted stabilisation policies so as to address the imbalances that were generated by the decreasing oil rents. These policies were to a major extent, successful in achieving the aims that they were designed to achieve. In 1985 the current account surplus was restored, and despite the huge decline in oil earnings in 1986, the deficit was contained at 156 million dollars in that year. Foreign exchange reserves recovered to 5.4 billion dollars by the end of 1986, again despite the sharp drop in oil earnings (IMF Financial Statistics). Thus why did the state go further in 1987 and start to announce policies that were contradictory to its earlier policies?

It is true that the slump in the oil prices in 1986 further complicated Libya's finances. However, as (Stallings, 1992:78) argues in order for governments to undertake such drastic measures and reorient their economics, "[t]he Lack of short, or even medium-term finance is not sufficient". Rather these governments should perceive the long-term economic outlook as extremely bleak unless a major change in development policy is introduced.

How did the Libyan leadership perceive the crisis and how did it evaluate it? I would argue that although the leadership was concerned about the deteriorating oil market and sharp decrease in oil prices in 1986, a key group of policy makers including, most importantly the Libyan leader did not evaluate the future as extremely bleak. On the contrary, they saw the crisis as temporary and thought that with some austerity the Libyan economy could overcome the problem. This is evident in Libyan leader's speech to G.P.C, which he made after the sharp decrease in oil prices in 1986:

> "Analysts believe that oil can not be dispensed with and [oil prices] will not slump continuously. They will reach a certain level, and they will start to rise again" (FBIS-NES,1986:11) [and] "... as far as Libya is concerned, the problem is not that big" (op.cit:12). " The price of oil will increase again. We have reserves of scores of years in oil and gas. The world needs the wealth we have".

In the meantime, the Libyan Leader asked Libyans to prepare themselves for a further period of austerity and to learn to live without luxuries. Obviously, the only remedy that he offered in his speech was austerity:

> "Every family plans how to manage its situation. The important thing is we will not be hungry, thirsty, without clothing until the end of oil problem when the situation improves. It means it is possible, in a simple way, to overcome any crisis. No matter how much we lost in price drop, in my opinion the loss was only in terms of luxury and extravagant items we used to buy" FIBIS- NES (1986: Q15).

4.2.2 U.S. Policies Towards Libya

There were more external factors that might have influenced the decisions of the Libyan government. The first was the U.S. policies towards Libya. Problems in U.S.- Libyan relations started at the end of President Carter's term but intensified with Reagan Administration (Hudson,1982:5). For instance, in March 1982 the U.S. declared an economic embargo on Libya. American firms were forbidden to trade with Libya oli unless licensed to do so by American government. licenses were only granted if the goods in question were not available elsewhere or if they had nothing to do with military or strategic considerations. "The Reagan Administration also banned imports to Libya other than food and medical supplies. The result was that U.S. trade with Libya fell from 813 million dollars in 1981 to 301 million dollars in 1983" (op.cit:10).

However, U.S. exports to Libya rose in 1983 to 200 million dollars and U.S. imports rose slightly to 9.6 million dollars (EIU,1985:15). The embargo was expanded in 1986. In January the Reagan Administration ordered the freezing of Libya's assets in the U.S. in retaliation for attacks at the Rome and Vienna airports and banned all trade between the U.S. and Libya. The embargo was successful in ending direct trade, "imports from the U.S.

fell by 85 percent in 1986, to 46.2 million dollars. Libyan exports were down by 96.4 percent to 1.6 million dollars" (MEED, 6 June,1987:18).

In April 1986 Washington launched a series of air raids on targets in Tripoli and Benghazi in which up to 100 Libyans were killed including an adopted daughter of Qathafi himself. In June 1986 the U.S banned the export to third countries of goods and technology destined for use in the Libyan petroleum industry. The same month the five U.S. oil companies with equity holdings in Libya pulled out of the country.

Three companies, Marathon (16.3 percent), Conoco (16.3 percent), and Amerada Hess (8.2 percent) had a collective 40.8 percent stake in the Oasis Oil Company with the remaining 59.2 percent being held Libya's N.O.C... Occidental had 36.75 percent of a joint venture with N.O.C (51 percent) and Austria's OMV (12.25 percent) whereas the fifth U.S. company, W.R Grace had a 12 percent holding in (Raguba) oil field (EIU,1992/93:18).

With the expansion of the embargo in 1986 they all withdrew, with their assets being frozen by the Libyan authorities (3) two other U.S oil companies, Exxon and Mobil, had already left Libya, in 1981 and 1982 respectively.

What kind of effects, if any, did the U.S policies toward Libya have on Libyan economic reform policies? First of all, how important was the U.S. embargo?. Although after the 1982 embargo trade with the U.S. fell dramatically, Libya was able to compensate for the loss by exporting elsewhere. The departure of some American technicians was made up by Europeans. Moreover, several U.S. Companies contracts (4) involved in consultancy work continued to get development contracts (18) with the N.O.C... Nevertheless, the 1982 embargo was effective in some respects. Libyan Arab Airlines for example was much affected and was forced to close down several of its European aircraft. Problems were also reported at some development projects (EIU,1985:10).

Even the 1986 embargo-despite the fact that it was much more expansive- had limited effects. This time all U.S. technicians left since to stay meant facing jail sentences for up to 10 years. But again in most instances Europeans took their place. Direct trade was virtually eliminated. However, the U.S companies were operating legally through their foreign subsidiaries. In fact, the findings of an investigation by the U.S General Accounting Office (G.A.O) concerning the effectiveness of the U.S trade sanctions against Libya from January to June 1986 found that 217 subsidiaries of U.S companies incorporated in other countries carried on trade with Libya worth 318 million dollars during that period, mainly the import of Libyan crude and the export of oil industry equipment (Arab Oil and Gas, 16 December,1986: 9-10).

Even, the pull-out of American oil companies had little effect, since the operations had either been taken over by other companies or Libya itself. Libya's National Oil Company (N.O.C) had been successful in finding markets for its products after U.S. oil companies left at the end of June 1986 and Libya's oil production reached its normal level. Finally, although the U.S administration sources claimed that the amounts of Libyan assets frozen totalled around 800 million dollars, Libya itself argued that they represented no more than four percent of its foreign reserves about 240 million dollars. According to an economic advisor in the Libyan Central Bank this was because the Central Bank stopped investing its assets in U.S banks since 1981 when the U.S imposed partial economic embargo (FBIS-NES, 21 January,1986, Q5).

Yet, the most important factor that decreased the effectiveness of the sanctions had been Western Europe's reluctance to go along with the U.S. The high volume of interdependence between the Western European countries and Libya in terms of trade and investment put severe restraints on their freedom of action. Even Britain, otherwise a fervent supporter of the U.S. over sanctions against Libya, admitted that its exports to Libya rose by 26 percent in the first quarter of 1986 (Henderson,1986:74). Furthermore, many European governments were sceptical about the accuracy of U.S accusations.

At least in the short run the effects of the U.S. policies towards Libya lay more in political and psychological than in economic spheres. Although the U.S. air raids increased the public support for the state initially (Anderson,1987).

After the assassination of Anwar Sadat in October 1981, "the polarisation of [North Africa] both in terms of ideology and superpower spheres of influence" had accelerated Hudson (1982:5). The U.S had offered powerful support to Libya's neighbouring countries, especially Egypt, Sudan and Chad that were hostile to the Libyan state. These developments increased the sense of encirclement in Libya, which was already isolated in the region.

Its relations with Egypt, Algeria and Tunisia were negative. Only with Morocco a surprise "union of states" agreement was signed in August 1984. However, the Federation broke up two years later in August 1986. In the Arab world only with Syria did Libya enjoy good relations. Relations with Western Europe were also problematic. Despite the fact that Western European countries did not go along with the U.S. embargo most of them kept their relationship only at economic level.

Increasing U.S hostility pushed Libya more towards Moscow. Especially, at the beginning of 1980's the country started to get more and more of its arms from the Soviet Union. The Libyan Leader visited Moscow on 10-14 October 1985 on the invitation of Mikhail Gorbachev. The two countries signed an agreement to expand economic and scientific cooperation. Relatively good relations between the two countries continued until the dissolution of the Soviet Union. Yet, Moscow's criticism of the U.S air raids was mild and the relationship was mostly based on mutual economic interests.

4.2.3 Ideological and Political Shifts in World Polities

Another external influence was the effects of the ideological and political developments that were taking place in world polities. The 1980's started with changes in economic policy in leading advanced industrial economies of the world; namely, the U.S., the U.K. and Germany. The new governments in those countries reversed decades of economic policy and advocated an ideology of less state intervention in the economy.

Similar developments took place within the scholarly community. Neo-classical economic ideas gained a new force and legitimacy in the late 1970's and early 1980's the performance of the NICs (newly industrialising Countries) further reinforced this intellectual consensus. Soon these ideas started to be put into practice to varying degrees in most of the developing countries from Latin America to Asia, from Africa to the Middle East. All of Libya's neighbours in North Africa, namely Egypt, Tunisia, Algeria and Morocco, embarked upon Liberalisation policies at varying degrees (Biersteker,1992; Stallings,1992).

Later the gradual "fall of socialism" in Eastern Europe and the Soviet Union Further reinforced these trends. First of all, as Stallings (1992:46) argues "the main examples of non-capitalist development disappeared". Secondly, the idea of total state control of economy was discredited. And, finally, passing of the ideologically-divided bipolar world had some important political implications for countries such as Libya, which used "neither East, nor West" rhetoric and which tried to use the hostility and competition between the two camps to create room for themselves to manoeuvre during the Cold War.

The Soviet attitude towards the U.S. air raids against Libya was a clear signal of changing times. I would argue that it was interpreted as such by the Libyan leadership. However, it is hard to pinpoint the effects of these developments on the formulation of economic reform policies. Moreover, it is obvious that ideas need an "enabling environment in which to take root and flourish" (Biersteker,1992).

It can still be argued that these developments might have influenced policy makers in terms of provoking a rethinking of the basis of their earlier choices and encouraging them to reevluate their earlier strategies when faced with economic difficulties. The effects of these developments that took place in the international arena were exacerbated by both some of the earlier policies of the state and the policies that were adopted as a response to the revenue slump.

4.3 The Internal Situation

It was clear that the Libyan leader stressed the need for reforms, called for increase in private economic enterprise and criticised the state institutions for inefficiency and corruption. Thus, the internal context is also crucial to explain the major internal factors leading to the announcement of the economic reform programme.

It can be argued that the existence of the public sector might be understood and justified for its control in many cases necessitated by difficult conditions such as necessary control of depleting and important natural resources such as oil or on the basis of considerations similar to those indicated for justifying natural monopolies when the private sector fails in implementing major projects such as power stations or providing postal and telephone services. The existence of public sector may be also interpreted for considerations related to achieving social justice, etc. However, domination by the state and performing directly the task of providing distribution services, wholesale and retail trade, import and export in which the private sector used to perform a significant role such as food stuff industries, this can be only explained from the nature of economic management emanating from the economic system itself.

However, during the last two decades, a number of problems arose and developed, as related usually to the nature of economic performance under the control of the public sector, which prevailed in Libya for since Libyan revolution 1969, thus leading to acute problems respectively therein. The domination of public sector and the effects of state control over the economic activity and within the individual initiative resulted in a number of problems considered as reflection or result of such dominance such as follows:

4.3.1 Misuse of Economic Recourses

According to El Jehaimi (1992: 21-29) "misuses of economic resources means generally non-obtainment from utilizing the natural, human and material recourses of the best possible returns/revenues as a result of lack optimal use of such resources". This can be practically achieved in various ways such as follows (Alqadhfi, 2002 :27):

- Orientation of a part of human or material resources towards a specific economic activity, while there is another opportunity for use of such resources for achieving high return rates than those, which can be achieved from such economic activity. This results in losing the opportunity for the society and depriving it of maximum benefit from its (rather limited) resources.
- Employment of human recourses (labour element) in a productive or service field without achieving the optimal utilization of all human resources available or utilizing them at lower rates than those envisaged thereby.
- As a result of deficiency or shortage of information on employment opportunities, certain human or material resources remain idle. This takes place while there are opportunities for employment for benefit therefrom.
- Lower production capacities of economic units for reasons related to management, financing or marketing, such as failure of factories in achieving the production targets or lower actual (realised) production rates with respect to design production (or maximum) capacities.

All that means loss of income for the society, which would have been achieved if the economic resources had been better used or as expressed by product gap. At the same time, it means loss or waste of that economic resources, when its use dose not involve achieving net addition to the resources of the individual or the society, as in the case of extracting the oil from underground, and the accompanying conversion of the underground wealth to monetary wealth only. The question raised in this respect is: How can misuse of economic resources as a result of state domination 'as represented in the public sector' affect economic activity?

The answer to this question lies in understanding the nature/method of management, of economic resources in the society. The bureaucratic method of management, dependence on centralized planning methods and disregards of the indicators for allocating the resources involved in economic dealing in the market, mainly price indicators. Instead thereof it is sufficed by applying the plan set out in advance and implementing it according to priorities dictated by mere political and social policies would inevitably lead to proceeding with executing projects without returns to the society or acceptance of certain projects, irrespective of economic return thereof or supporting and financing many unprofitable projects hoping for their success in future. In this respect, the head of the Libyan economic association said:

> "The public sector was the major sector of local employment. In the past, the productive and basic service organisations were transferred to public companies. In spite of their relative success in the productive manner, the benefits of the large investments in agriculture and industries have not achieved the important change in the society. Because of the decrease in the oil price in 1980s up to the 1990s the Libyan economy suffered a lot from many limitations caused by the unbalance in the national revenue and payments. Then the inefficiency of these associations has the role in complicating these problems. They failed to find an alternative or another source rather than the oil. Their abilities to compete were very low and this caused the decline of the commercial balance. Also, their losses increased, they had no continuous financial support, which deepened the shortage of finance. As a result of that the economic investments and employment have declined. I think all these aspects in addition to the socialism policy have lead to restructuring of the Libyan economy to give more opportunities to the private sector to control the national economy".

All that means practically a waste of economic resources available to the society, which are characterized by scare nature in general. Hence, improper management of economic resources occurs. To indicate that, I provide certain examples mentioned in reports of the General People's Committee for People's Control and Follow-up (1990:54), also, crucial studies conducted on certain economic sectors (Alqadhfi, 2002: 28-34).

First, in the industrial sector in which the investments allocated for it exceed LD. 4315 million, including more than 250 factories employ more than 47,700 producers/workers, it is noted that excluding 17 locally manufactured commodities achieving production exceeding 60% of maximum capacity of the producing factories thereto, the production rates in other industries ranged between 9-59% of the maximum capacities specified thereto (People's Board for Follow-up- Annual report submitted to the Basic People's Conferences in second session for 1989: 4).

In addition, lower rates occurred in the production quantities realized in several products of strategic industries during the period from 1.1.1990 to 30.9.1990, as compared to the production realized thereof for the same period from 1989, see Table (4.4). For instance, "the production realized in 1990 for Garyounis telephones decreased by 48% as compared to that 1989.

Production of the various filters also decreased by 73% in 1990 as compared to that in 1989. However, the production proportion realized with respect to maximum capacity did not exceed 1% in 1990" (The General People's Committees for Control and Follow-up, General Annual report submitted to the Basic People's Conference in their 2nd ordinary session for 1990: 54).

Table: 4.4 Factories whose actual productive capacities did not exceed 30% of maximum capacity

Factory	Proportion of achieved production to maximum capacity
1. Light industries:	
Fruit factory in the Green Mountain	13%
Tomato paste factory, Sebha	0%
Fruit factory, Derj	1%
Dates factory, Hoon	26%
Al-Nahda Agricultural factory, Zawia	10%
Vegetable and fruit factory, Zawia	24%
Date Syrup factory, Khoms	28%
Olive Oil refining factory, Isbea	4%
Tin cans Factory, Zawia	75%
Flour Mill Tobruk	0%
Automatic Bakery, Tripoli	8%
Automatic Bakery, Misurata	6%
Wall Tiles factory, Gherian	28%
Plane/flat glass factory	29%
Clothes factory, Derna	27%
Carton boxes factory, Nasseria	27%
Plastics factory, Benghazi	23%
Plastics factory, Beida	21%
Gases factory, Tripoli	12%
Red-brick factory, Sawani	26%
Al-Amal Washing Machines factory, Tripoli	2%
Refrigerator factory, Rujban	0%
2. Strategic industries:	
Cement factory, El-Margab	0%
Gypsum factory, Sawani	22%
Metal works factory, Tripoli	12%
Lime factory, Suk El-Khamis	19%
Filter factory, Tripoli	5%
Lime factory, Benghazi	10%
Red-brick factory, Benghazi	5%
Cement moulds factory, Benghazi	14%

Source: People's Board for Follow-up- Annual report submitted to the Basic People's Conferences in second ordinary session for 1989: 20-31.

In general, "it is realised that there is a lack of integrated planning for specifying the need of the national economy for factories and productive units for the light industrial sector during developments and extensions factories or in the construction of new factories. All that is noted in addition to arbitrary selection of locations of certain factories and unobservant of co-ordination between them in terms of specialisation and lack of environmental compatibility of such projects" (EL Jehaimi, 1992:26).

Second, in the field of agriculture, it transpired that the agricultural sector failed in achieving its objectives, being the sector for which about 17.2% of total investments in the national economy during the period from 1970-1990 was allocated. Despite that, it is recognised that the production level decreased in most of the relevant sectoral projects, lagging behind the envisaged targets, especially self-sufficiency target whose rate did not exceed 21%. From the follow-up of 175 projects pertaining to agricultural sector whose total value amounted to LD.261.1 million. It is also noted that 98 projects have stopped production, i.e. a proportion of 56%. There are 18 projects, in which work has not yet started (op. cit :27).

4.3.2 Bureaucracy, Bribery, Favouritism, and Administrative Corruption

Bureaucracy and its accompanying phenomena such as bribery, favouritism and administrative corruption arise when it is impossible to issue and implement and follow-up decisions for reasons related to difficulty in issuing or implementing them or risk or importance thereof, but relate to the numerous channels through which such decisions should pass and the conditions to be fulfilled for eventual implementation of such decisions, which are mostly unnecessary or exaggerated conditions as a result of prevailing administrative nature, unclear responsibilities and powers of the employees in the administrative machinery or conflict thereof (Alqadhfi,2002:34).

When it is impossible to issue and implement decision in due course, and as required by the nature of adopted administration, the individuals attempt to follow all methods and ways for achieving their various interests. These methods adopted by individuals include bribery, favouritism and bias, therefore, leading to administrative corruption in the many administrative bodies. The pre-Secretary of the People's Committee 'Minister' of General Public Service reported the following:

> "I would like to confess that the major problem is administrative and we can deal with it directly so as to know the faults then we can stop the misuse of the resources of the Libyan society taking in account the oil is the only source of currency. Also we have to admit the comprehensive solution for problems of development through systematic and perfect study to improve administrative policies. We have to consider the major problem and not minor aspect of it. The administrative misuse has lead to decrease of production and that is very big problem as we see it as a disastrous problem. Also, the administrative misuse has lead to delaying of development programs, failure of solving unemployment crises and alleviation of poverty and corruption. The performance of our economical development throughout a quarter of a century has not achieved a major improvement in the economical production, human development or the large investment projects, which were allocated for development. So we conclude that the human investment and development need huge effort for improvement and we have to connect it with the essential needs and develop the quality and increase the profits.
> In my opinion, there are many indicators for the weakness of the economical performance, out of which are:
>
> 1. Continuation of dependence on the oil,
> 2. Scarcity of exports of other sources,
> 3. The deterioration of development finance in relation to the supremacy budget,
> 4. The objective to diverse the economy has not been succeeded. The participation of production sectors is low within GDP".

Moreover, the People's Board for follow up, pursued the various public bodies and recorded several contraventions and notified for many aspects/ phenomena as mentioned in its various reports such as follows:

- The phenomenon of forgery, mediation, favouritism, bribery and exploitation of jobs for private interests.

- The phenomenon of carelessness and lack of seriousness negligence of performing duties.

The Board indicated the reasons for these phenomena on one hand are due to the failure of the responsible officials in applying the laws and follow-up of their subordinates. Moreover, it is also, because of failure in keeping order and discipline in most of these bodies. On the other hand, it indicated causes attributed to the nature of administration and manner adopted in providing the several necessities, whether consumer or productive commodities, i.e. the methods of import budget/ balance whose possible implementation depends on the foreign currency available or its allocations in foreign exchange, which are often incompatible with the demand for import.

Hence, any failure or slowness in implementing the import budget, whether resulting from inaccurate figures stated therein and inconsistency with the actual demand or difficulty in opening the necessary credits for implementing the budget for administrative or centralized reasons or as a result of unavailability of foreign exchange in the first place, will result in impeding production or shortage of certain commodities in the markets, thus leading to occurrence and spread of undesired social phenomena such as mediation, favouritism etc. this is addition to the financial difficulties and problems encountered by the imports, whether commercial, industrial or service bodies.

The board's report designates that "social interests would require treatment of this economic fault and treatment of the phenomena mentioned in the Board's would contribute to achieving that" (The People's Board for follow-up, Annual Report submitted to the Basic People's Conference in their 2nd ordinary session for 1988:3). In this sense, the General Secretary of the General Planning Council points out:

> "To be more realistic, it is important to focus on social cultural factors and its impact on the existing and previous economic plans.
> 1. Libyan society has passed comprehensive changes during the last decades included the social life, political arena and economical situation. However, in spite of these changes, the Libyan society formation and social communications have played greater role in the type of services provided by the economical sector; for example most of the labour force of the industrial sector, 'the public companies' has been employed according to the social relationship rather than on their qualifications or knowledge. This in addition to the effect of the local communications on the administration. There are 'interests groups' have their impact on administration and this leads to misusing of the resources of the companies and hiding of the faults.
> 2. The cultural factors have an effect as well; most of the personnel prefer to work in big towns rather than small ones, so this has an effect on industries in small towns. There are no enough qualifications to achieve their objectives. Also the idea of employing all engineers in production sectors leads to interest of production and technical issues more than the financial and economical aspects".

To indicate the existence of phenomena such as administrative incompetence, it is important to show certain examples documented in the reports in the General People's Committee for People's Control (1995) as follows:

-12526 (twelve thousand and five hundred and twenty six) case of (absence) administrative incompetence during the period from 1.1.1990 until September. 1990.

-Issue of several administrative decisions (appointment, transfer-promotion- termination of service) in contravention of effective legislation.

-Payment of salaries for certain employees during their absence from work or enjoying leave without pay.

-Improper distribution of work between employees in several departments and non-availability of the suitable employee in the convenience post.

It was, however, obvious that the Board drew attention to certain serious matters, which it investigated, that the loss sustained in deficit and embezzlement cases reached about LD.5 million, in addition to another LD.14 million and other losses resulting from waste of public funds and movables, moreover, losses resulting from deviations in implementing administrative contracts, allocations of real estates, banks, broker in markets, improper storage and losses from fire.

4.3.3 Lower Productivity Levels, Higher Production Costs and Lower Quality

The phenomena of lower productivity levels in addition to higher production costs, and lower quality of products are considered as inevitable results of misuse of economic resources on the one hand and bureaucracy and administrative corruption on other hands (Alqadhfi, 2002:27).

All theses phenomena represent indicators of default in the economic administration, which can only be eliminated by radical reform of such management. For instance, it is noted from the study of production costs in certain companies pertaining to the strategic industries sector such as Trucks Firm, Abo Kammash Complex and National smelting Co. that most of the national/local products are high in cost as compared to similar imported products. In fact, this is attributed to several reasons, mainly the following: (Report of People's Board for Follow-up for 1990:54-55).

-Establishment of certain industries without conducting adequate economic and technical feasibility studies.

-Lower operating capacity as compared to design capacity and work in most factories for one shift (against what should be) thus leading to lack of optimal use of machinery.

-Clear shortage of certain operational equipment, lack of spare parts and failure in keeping active maintenance work of the various kinds.

-Shortage of training and rehabilitation programmes in productive units and higher rate of administrative and service manpower as compared to workers in production, and large dependence on foreign manpower.

-Lack of attention to cost accounting system and elaboration of appropriate budgets.

Evaluation studies for certain factories in Benghazi, Green mountain and Al-Bitnan Municipalities indicated the reasons for lower production capacity and higher costs, including (21) twenty one factories with total construction capacity and higher cost, of about LD. 333 million and number of producers/workers therein about 6300, of which 95% were constructed during the period 1975-1989.

Most of the factories suffer from many problems, which were reflected directly or indirectly on the lower production capacity thereof and higher production costs. It also transpired from analysis of data on actual production during the years 1983-1988 that operation level in these factories did not exceed 50% of the available capacity therein. Even in many factories, the capacity utilization rate (operating efficiency) did not exceed 30% All this means that production costs will remain high, unless the situation of such factories are corrected and the problems encountered are solved (Secretariat of the GPC for Industry, 199:3). In this context, the General Clerk of People's Committee for finance emphasised that:

> "..the state has noticed that the raising of production efficiency and then the increase of rate of development within the existing situation of the Libyan economy is difficult to fulfil without a foreign aid. We need

resources more than available in the local market. In addition, we need advanced technology, new systems of administration and improved marketing system in order to increase the production.
I believe that all these issues cannot be achieved without foreign investment contribution towards the economic development process. We have a problem because of the scarcity of the resources allocated for the public enterprises and decline of performance. Therefore the most preferable alternative for development is the private investment".

The following table (4.5) shows data of production capacities utilisation in the factories studies during 1988.

The reasons for lower production capacities in these factories and eventual higher production costs therein are attributed to aspects of failure in a group of factors related to the following (op. cit: 9-31): First, Economic *aspects*: Lack of economic feasibility studies, which are considered as a component of productive efficiency. Second, *Financial and accounting aspects*: such as lack of factories for financial and accounting systems and non-application of estimated budgets, miscalculation of costs and delay in preparing final accounts.

Third, *Administrative aspects*: As represented in lack of factories for the various administrative work requirements. Most of them suffer from centralized control for taking decisions and giving information and also functional satisfaction problems, discipline, mismanagement for reducing expenses and lack of using job description. Fourth, *Proper planning of production operations and materials*: Most of factories lack management of planning and development and non-use estimated budgets.

Fifth, *Methods and systems for product pricing*: Pricing is made in most factories as per indicators not reflecting the real production costs 'industrial costs' (Alqadhfi, 2002,27). In addition, there is a group of factories affecting directly lower production level or stopping thereof, moreover, higher production costs such as follows:

Table 4.5: Maximum design capacities and production capacities utlisiation rates in certain factories for 1988

Factory	Max. Design Capacity	Actual Capacity	Capacity Utilization rate (%)
Flour mill, EL-Marj	60,000 tons	10,780 tons	18.0 %
Flour mills, Benina	105,000 tons	18,212 tons	17.0 %
Flour Mill, Tobruk	45,000 tons	14,758 tons	32,8 %
Fodder Factory, Benghazi	288,000 tons	154,000 tons	53,5%
Fodder Factory, Tobruk	192,000 tons	108,000 tons	56%
Fodder Factory, Al-Abiar	56,700 tons	29,346 tons	51,7%
Cement Factory, Al-Hawari *	2,000,000 tons	458,300 tons	21%
Cement Factory, Al Fatayeh **	1000,000 tons	293,000 tons	29%
Longitudinally welded pipes-Factory			
Spirally welded pipes Factory	40,000 units	16,938 units	42%
Spray irrigation pipes Factory	75,000 tons	3,336 units	4,0%
Oxygen Factory	6000,000 M^3	3140,896 M^3	52%
Acetylene Factory	504,000 M^3	307,756 M^3	61%
Blankets complex, El-Marj:	120,000 k. g	65,378 k. g	54,5%
a. Blankets			
b. Mattresses			41%
Modern tannery, Benghazi	475,000Blanket	199,216 Blanket	19,3%
Cables Factory	500,00 Mattress	96,000 Matters	29,6
Hair wires Factory	6000,000 sq. ft.	1780,000 sq. ft.	28%
Juice Factory, AL-Beida	8,000 tons	2210 tons	48%
Beverage factory, Benghazi	2,000 tons	960 tons	34,8%
	6000,000 boxes	2087,736	16,5%
	8000,000 boxes	1321,660	
* 1987 -- **1986			

Source: Secretariat of GPC for Industry (1991:42).

1. Delay in financial warrants and opening credits as a result of complicated bank procedures, misuse of the opened credits and the relevant problems such as losing the opportunity for obtaining best prices, and confusion of production plan due to delay in delivery of raw materials and operation necessities.

2. Numerous mechanical and electrical faults as a result of improper operation and shortage of spare parts: It is noted that certain industrial products are not in conformity with the approved standard specifications such as fodder, and weak health control in the productive units and neglect of making the necessary analysis (Report of the People's Board for Follow-up for 1990: 59).

4.3.4 Shortage and Disappearance of Commodities and Emergence of Black Market

Commodities decrease and disappear from markets for many reasons related to source and methods of providing them and the manner of marketing thereof, in addition, the marketing channels. This is also related to whether the commodity is locally produced or imported. Such reasons can be specified as follows (People's Board for Follow-up for 1989:30-44):

A) Lower production levels of locally produced commodity:

As a result of stopping of certain production lines, shortage of necessary raw materials for production or closing the factories and exist of the industry from the market.

B) Stopping import of commodity or fluctuation of import operations due to delay in opening credits for import or lack of necessary foreign exchange for financing the expenses, or as a result of adopting commercial policies leading to shortage of imports of the various commodities or prohibition of import finally.

C) Interference in the market by specifying a legal price for a commodity lower then that of the market price as a kind of price subsidy for consumers.

D) Improper display/supply of the commodity as a result of lower efficiency of distribution channels, thus, suggesting to the consumer the existence of shortage thereof and creating an atmosphere of anxiety and uncertainty among the consumers, leading to purchase of all commodities. In terms of these difficulties, the executive director of Local Marketing Company in Benghazi said:

> "The domination of the state to the commercial activities caused bottlenecks in the local markets. They were subjected to decrease of commodities; increase in prices, especially in 1980s and beginning of 1990s.This formed the inabilities of these institutions, which were responsible of the process of import and distribution. Therefore, the state started to limit the role of the public sector in the commercial activity and allowing the private sector to participate through many changes in the Libyan economy. This represented in many consecutive formalities. In addition, we find the most important factors, which have affected our performance, are the corruption and bribes in public companies, while the private sectors administered by the capitals' owners and, therefore, the corruption and bribes have no way. The public projects are administered by a committee appointed by the state. Because these projects have no continuous supervision, most of the responsible persons make use of their positions. We don't forget the decrease of production led the state to go to the privatisation of the public enterprises".

Many reasons are attributed to economic mismanagement and lack of incentives for those in charge of production, import or distribution of commodities. Also, bureaucracy and centralisation play an important role in creating such reasons including lack of information on the market and subjection of distribution or marketing of the various commodities to many restrictions in terms of quantity and quality, in addition to improper storage methods and non-adoption of scientific methods for treating the stock, representing phenomena often related to the public sector, centralised planning, and absence and non-flow of information when needed.

4.3.5 Weak Control In The Public Sector

According to Alqadhfi (2002:27) "control as a management task is not less in importance than the planning, supervision task or other management functions. Thus, it is considered as a means of avoiding problems and bottlenecks, which may occur during production or provision of commodity or service. Hence, control is considered as an important means of avoiding increase in production costs by ensuring the task for achieving production plans in the manner envisaged thereto". From this aspect, control is not considered as a goal in itself, in as much as it is considered as a means for ensuring the implementation of production plans in an optimal manner.

In addition, "control may be practiced to ensure obligation of the various administrative units to implement the laws and decisions organising administrative and financial matters or for ascertaining the implementation of the various policies issued by the various bodies, whether financial, monetary or otherwise" (El Jehaimi,1992:41). On this basis, weak control or inexistence thereof means ineffectiveness of a management task and lack of safety valves, which would prevent administrative and financial corruption and deterioration of economic management in general.

Control can be achieved by several well-known means. It can be either practiced through a special department known as The Control and Follow-up Department or through an integrated accounting system to be applied in the various units by using the estimated budget system and stock control system and quality control sections, etc. In Libya, it is noted that there is a weak control in the public sector establishments as compared to units managed on the basis of individual initiatives. Public sector units suffer from several financial and administrative problems as a result of bureaucracy, centralisation of management, functional dissatisfaction, administrative and financial corruption, favouritism, fraudulence and bias, etc.

To indicate the phenomenon of weak control in the public sector institutions, we provide few examples mentioned in the reports of the General People's Committee for People's Control and Follow-up. It was noted, for instance, that, within the Arab Cement Company, the Management Committee for the Company lacks control over running and control of work in the factories, and absence of co-ordination between the production units, especially with respect to purchase operations from abroad, in addition to lack of discipline among the employees of the Company, thus resulting in, and for other reasons, stopping production in certain factories (Report of the People's Board for Follow-up for 1989:47).

In the General Cargo transport Company, "there was weak control over the fixed and movable assets of the company, therefore, exposing them to damage and loss" (op.cit:50). On the other hand, Animal production projects of the agricultural sector suffer from the problems of weak internal control system, inobservance of the importance of periodical maintenance and absence of programmes for veterinary health, etc. This is also applicable to the Libyan Fishing firm and the General Fishing Firm, it was noted that there is failure in the internal control system, weak documentary circle applied in the company and existence of failure aspects therein such as lack of a system for internal auditing and periodical inspection and failure in the strict control over the stores. (op. cit :53).

The phenomenon of weak control covers the various public sector units including banks. It is noted that there is failure in inspection and control departments over commercial banks in the Central Bank of Libya for performing their full role towards follow-up and control of commercial banks and their various branches with respect to compliance with the rules for organising the progress of banking work, thus leading to occurrence of more than one embezzlement and fraudulence operation and implementing certain banking operation in contravention of the effective laws, decisions and instructions (Report of the People's Board for Follow-up for 1990: 69-70).

Remarks were made regarding weakness or failure strict financial control with respect to Development Bank, Saving and real Estate Investment Bank, and Agricultural Bank. It is also remarked that there is lack in the internal control in most of the agricultural societies and farmers' conferences, as the outcome of revenues is used for covering expenses directly, without reliance on the documentary circle and proper accounting system. Also, there is lack of method for the overall estimated budgets and weak control of stores and incomplete documentary circle thereof (op. cit: 21-30).

The sector of planning in the economy recorded negligence in applying the previsions of law No. (3) of 1989 for price control. It is also noted that prices are not indicated on the goods/commodities offered/displayed for sale, in contravention of the decisions issued in this respect. The sector could not follow up distribution channels, thus leading to leakage of commodities and their sale thereof at high price (op. cit: 60).

4.3.6 Lower Returns on Capital

The phenomenon of continual lower returns on capitals is related to that of misuse of economic resources, and even considered as a natural result thereof. Failure in finding optimal use of fields for the various means either suspensions or employment thereof in opportunities, which would not enable obtainment of maximum return possible for several reasons such as operation of establishments or factories in which the resources are invested with low production capacities (Less than maximum capacity) and realizing higher production costs, also, lower economics of the project in general or embarking on implementation of projects without conducting the necessary feasibility study or execution of such projects, irrespective of the results of economic feasibility study, which may be implemented.

In the latter case, the project is justified on the basis of social or political factors, despite knowing its unfeasibility from the economic aspect, "the result is the implementation of projects, either losing their early/initial stages and have no potentialities for success in future or such projects would achieve small and low return in proportion to what would have been achieved if such funds expended on such projects had been invested in other alternative fields of use. However, to indicate the low return rates on capital in industrial and agricultural companies, general contracting and foreign investments, we mention few examples included in the reports of the General People's Committee for People's Control and Follow-up" (1989:6-63):

a) The size of assets in 170 general companies amounts to about LD. 21 billion as per the last budgets examined by the board. Despite that, it is noted that there is low contribution of such companies to the general budget of the state in the form of transfers of their production surplus or at least non-dependence on the Public Treasury for covering the expenses for their activities.

b) The investments in the Foreign Investments firm until 31.12.1988 reached about LD. 1179 millions, but the achieved returns amounting to LD.66 millions only, i.e. 5.6%. It had been observed that most of the joint investment companies depend on the Libyan market for marketing their products, being unable to compete with similar companies in international markets.

c) "The partnerships/joint-ventures of development bank, savings and real estate investment bank, Libyan Arab external/foreign bank and certain commercial banks and Libyan insurance company were characterised by stagnancy and small return achieved thereby and inexistence thereof in certain joint-ventures, meanwhile, Libyan Arab firm for foreign Investment participates, the Company still continues supporting and increasing their capitals as per the remarks in the report of the People's Board for Follow-up" (op. cit:72, 73).

However, the total losses in certain joint ventures of the company until the end of the fiscal year in 1988 reached about LD. 52.4 millions for (46) companies in 1989. It is also noticed that the value of such losses in certain companies exceeds the book value of the joint venture for the same year (Report of GPC for People's Control and follow-up for 1990:33). The following Table (4.6) shows certain examples of that:

Table 4.6: Losses of certain companies pertaining to the Libyan Arab Firm for Foreign Investment

Company	Proportion of loss to the book value of joint- venture
Libyan-Maltese fishing Co.	157 %
Astras Foodstuffs Co.	129 %
Limba Maltese Contracting Co.	123 %
Medetex Industrial Co.	147 %
Carl Kelbe Industrial Co.	116 %
Gnayanese Fishing Co.	336 %
Mauritanian Agricultural Co.	155 %
Somalian Agricultural Co.	142 %
Nigerian Agricultural Co.	137 %
Congolese Agricultural Co.	100 %

Sours: Report of GPC for People's Control and Follow-up for 1990.

e) Lower return achieved by the Libyan Foreign bank as compared to paid capital. The return rate during 1985 reached about 60%, then continued to decrease until it reached by the end of 1989 about 5.9%, despite expanded activity of the bank. Moreover, despite the magnitude of the size of contributions of the Bank to certain international financial institutions, reaching about LD. 160 million until 30.9.1990, the size of monetary return achieved therein did not exceed 1% of the funds invested in such contributions during last three years.

f) Incurring consecutive loss by certain companies of the marine wealth sector, such as the National Firm. for Fish Canning, which incurred consecutive losses since 1975 until the last budget prepared thereto for the fiscal year 1989. Its losses amounted to LD.6.6 millions or more than 100% of the invested capital. Also Gulf Fishing Co. incurred loss at the rate of 25% of the capital invested therein (Report of the GPC for people's Control and Follow-up for 1990:69). Furthermore, non-closing of many companies in the industrial sector of their balance sheets for several years and not knowing their financial situations means absence of any data regarding the return on the capital invested therein. However, total indicators under which such companies operate indicate lower returns on invested capital or incurring consecutive losses by certain companies (Alqadhfi, 2002:27).

Overall, the most important indicators for lower return rates in the industrial sector as follows:

-Lower actual production capacities as compared to designed capacities.

-Higher production and operating capacities as compared to designed capacities.

-Suspension of production in many factories and its fluctuation in other factors.

-Difficulty in marketing the products and inability to compete with imported products as a result of higher production costs and lower quality.

-Weakness of financial structures of the various companies and incapability to overcome the encountered debt problems.

4.3.7 Continual Deficit In The General Budget And Aggravated Public Debt

The phenomena of continual deficit in the General Budget and growth of public debt are considered as indicators of the problems encountered by the general financial administration and weak accounting system adopted by the Secretariat of Treasury. In view of the expanded circuit of public sector and covering all production and service sectors and even absence of the role of private sector, which depends on individual imitative and lack thereof in many fields, the default in general financial administration is continued due to the public sector companies and institutions suffer from activities, irrespective of the return achieved therefrom. At the same time, numerous expenditure bodies at municipal level and centralized bodies and lower revenues of municipalities from their own resources incapability to collect the due taxes and fees means continual deficit in the General Budget, unless the nature of economic management and the financial system for the State are reformed.

The account for 1984 showed deficit of LD. 1974.089 millions. The central Bank of Libya used each time to provide advances/loans for the General People's Committee for Treasury to cover its expenses. Thus, the balance of local general debt increased and developed during the past years as indicated in Table (4.7). To prove the fault, which the financial management suffers from it suffices to know that the latest final account by the General

People's Committee for Treasury is the final account covering the fiscal year 1990-1991 produced for auditing.

However, it should be noted that continual growth of general local debt has occurred in contravention to legal provision, mainly Banking Low No. (4) of 1963 and its amendments, Law No. (1) of 1986 and Law No. (11) of 1990) regarding general debt. (EL Jehaimi,1992:51). The well-known economic problems usually involved in adopting financing methods by deficit find their way to economic activity. The economy as a whole becomes operating under the effects of increase in general expenditure on one hand and increase in money supply and the accompanying inflationary effects. On the other hand, the size of circulated local currency on 15.10.1990 reached about LD. 460 millions or an increase of 83% over that by the end of 1984 (Report of People's Board for Follow-up for 1990: 23).

Table 4.7: Development of local general debt towards Central Bank of Libya

Year	Value (LD. Million)
1981	1740.0
1982	2549.8
1983	3133.7
1984	3734.4
1985	4097.9
1986	4599.5
1987	4714.6
1988	4890.3
1989	5345.4
1990	5545.4
1991	5920.3

Source: Central Bank of Libya "unpublished data 1991". The People's Board for Follow-up, Annual Report submitted to the Basic People's Conferences in their 2nd ordinary session for 1989: 63-640.

4.3.8 Shortage of Cash Flow In Most of The Public Sector Projects

The default in the financing structure of the public sector companies and projects is considered as one of the most important problems encountered in such projects, and curbing the possibility of their success in achieving their objectives. However, shortage of positive cash flow, which is considered as a feature of default in the financing structures is, in fact, an inevitable result of the nature of economic management and the method of dealing between the various public sector units. The most important reasons for the problem of shortage of positive cash flow are as follows:

A) Non-liquidation of dues of certain national companies and curbing their capability to implement their import budgets, thus leading to deflation of their activities and deprecation of their capitals, and expenditure of most of their funds on salaries and running services, without corresponding production return. Also, shortage of cash flow in agricultural projects led to their inability to meet their obligations and payment of salaries/wages of employees therein in due course, thus leading to charging the projects with financial burden resulting from bank interests as a result of over-drawn accounts (Report of People's Board for follow-up for 1990:48).

B) Monetary deficit resulting from higher production expenses than sales value. For example, total deficit during the years of service in the General Co. For Chemical Industry (Abu Kammash Complex) as from 1983 reached about LD. 1 million. The deficit rate during 1989 reached about 49% of expenses (op. cit: 39).

C) Inability of certain companies to collect their debts from other companies, thus making them suffer from shortage of cash flow, as is the case in the National Company for Soap and detergents and its debts from the National Firm for Markets (op. cit:40).

D) Lack of due debt balance for certain firms from others and debts due thereon and expansion of sale by the companies on debt as is the Case in the General Dairy Firm.

E) Accumulated over due debts for several companies from others as a result of lack of follow-up of collection of such debts, as is the case in the General National Co. for Flour Mills and Fodder, Tripoli, whose due debts amounted to almost LD. 33 million. Some of them refer to the year 1979(op. cit: 43). Also, the General National Co. for Flour Mills and Fodder, Benghazi, suffering from the problem cash flow as a outcome of debit balance amounting at the end of September. 1989 to almost LD. 31.8 millions and the Libyan Cement Co. whose debts amounted to about LD. 8.2 millions (op. cit: 45).

F) Inability of certain companies and institutions to obtain the subsidy allocated thereto by the public Treasury, as is the case in the National Supplies Corporation whose due subsidy for the period 1978-1989 reached about LD. 300 million. As a result of non-obtainment of the specified subsidy it was obliged under pressing needs for cash flow to recourse to Banks for obtaining credit facilities amounting to almost LD. 12 million until 30.9.1989, bearing bank interests reaching about LD. 4.5 million. At the same time, the debts of the Corporation from public bodies amounted to LD. 33.7 millions (apart from the due subsidy) and its commitments to others reached about LD.39 millions (op. cit: 85).

G) It was generally noted that the debts due for many general firms are high. Most of these debts are in commitment of public bodies, institutions and companies. Regarding this problem, the General Secretary of the General planning Council emphasised that:

> "...as we know that the Libyan economy relies on one commodity, which is the oil and has exemplified the quintessential rentier economy. The

> decrease of the oil prices in the mid- 1980s have negatively affected the Libyan economy and caused a shortage of cash flow in most of the public enterprises that reduced their expenditure, in the same time, the state issued several decrees limiting the utilize of hard currency ,thus, the public firms could not pay many items by instalment. Therefore, the shortage of the raw material was caused by the shortage of the hard currency and also the necessary spare parts that stopping many manufactories and productive firms".

4.4 Restrictions on Imports and State's Commercial Policy

As discussed earlier, many of the state's most radical economic policies were initiated soon after 1978. The state closed traditional small local private shops and instead opened huge state-controlled supermarkets. This network was established in the early 1980's and through it the state started to subsidise basic commodities. However, the state supermarkets in Libya were inefficient and poorly organised.

This resulted in a thriving black market. The unfortunate aspect of the whole experience was that it was launched just as the oil revenues started to decline. The result was severe shortages. To offset the problem the "*green suqs*", "Large supermarkets" were created in 1984 to sell a range of heavily subsidised foodstuffs to Libyan citizen only. In fact, in mid 1980 about 70 percent of Libya's food needs were met by imports. Under such circumstances, the consequence of state's policy of cutting imports because of the decreasing revenues resulted in further shortages.

A journalist visiting Libya after the U.S. air raid in 1986 writes, "the shelves display little other than tinned or dried goods. Meat is often in short supply and luxuries such as chocolate, foreign cigarettes and car spare parts are available on the black market at high cost" The African Review (1986:164).

This was aggravated by what was a perceived economic privilege of the few at the time of austerity. Despite the state's attempts at egalitarianism more and more Libyans started to talk about "the extravagant housing to which many of the top bureaucrats and retired army personnel level have access" and the "corruption among top ministry officials" that resulted in the dismal performance of the state supermarket system (Vandewalle,1990:7).

The consequence was an increasing discontent and popular anger. In its extraordinary session, which met in Tripoli on May 4-7, 1985, the GPC criticised the General People's Committee and gave it another seven months or less face dismissal at the annual meeting of the GPC in early 1986. In his speech the Libyan leader tried to appease the GPC but also criticised it for what he called " a lack of reasoned debate on the economic problems facing Libya". He suggested that the congresses should focus their attention on several weaknesses in economy, in particular the size of Libya's import bill and its dependence on foreign labour (EIU,1985:5-7).

The expulsion of expatriate workers made matters worse. The fact that 40 percent of Libya's work force at that time was foreign "brought the service and agriculture sectors to a virtual standstill". In a speech he made on September 1st, 1985 the Libyan leader acknowledged the food shortages and lines for basic foodstuffs in the state supermarkets. As a remedy he spoke about the need to do without luxuries and cut Libya's dependence on imports (EIU,1985: 5).

4.5 Development Policies of the Boom Years

Another factor that enhanced the effects of the decline in revenue was the nature of the development plan that was in the course of being implemented at the time of revenue slump. In fact, considerable emphasis on the agricultural and industrial sectors, especially heavy industry had just started with the 1981-1985 plan.

The plan allocated LD. four billion to the industrial sector. Encouragement of the development of heavy industry became a high priority whereas before development of plans concentrated more on developing the infrastructure and light processing and petrochemical industries, now the planners explicitly moved into non-oil related heavy industries. Beginning the construction of G.M.R in 1984 was the most important example of the new development priorities. Nevertheless, a fertiliser complex at Sirte and Misurata iron and steel projects were all included in this plan. These projects required considerable amount of money and therefore put a strain on already squeezed state revenues. Furthermore, they also required extensive imports and they were not hurt by the state's cutting of imports as consumer goods were.

4.6 Libyan Involvement in Chad and Military Expenditures

In his speech the Libyan leader, at Tripoli 5th March 1982 said that:

> "Libya is the defender of Africa...We are the ones interested in peace in Chad...because we are an extension of Chad and Chad is an extension of us".

Libyan involvement in Chad was another policy decision that magnified the effects of the problems, which Libya was facing. The involvement was draining on the economy since Libya's already substantial amount of military expenditures probably increased as a result of it. Military spending did not suffer from cutbacks comparable to those in development programmes and consumer spending (EIU,1990).

Although there are not definitive figures as to how much Libya spends on arms, most estimates assume that arms imports are equivalent to at least 40 percent of total civilian import budget. For example, according to U.S. Arms Control and Disarmament Agency, between 1979-1983 Libya spent 12,095 billion dollars on arms (5). After decreasing oil revenues the country started to run up significant arms debts, mainly to the Soviet Union. By the end of 1985, these were estimated to reached somewhere between four to five billion dollars (Henderson1986:74-75).

In this context, Niblock (2001:61) argues, "throughout the 1980s there was a relatively high level of expenditures for defense. It was, however, difficult to accurately estimate these expenditures, as figures for allocations to the armed forces were not made public after 1984. In 1984, expenditures on the armed forces came to LD 340 million (dinar), constituting some 48 percent of the allocations for central government expenditures in the administrative budget (a total of LD709.2 million, with the remaining LD731 million in the administrative budget being allocated for municipal expenditures)".

4.7 Conclusion

The impact of developments in the world oil market appears to have been substantial in influencing the state to adopt economic reform policies in mid-1980s. It is difficult to imagine change in direction of policy in the absence of the revenue slump that occurred as a result of the negative developments in the oil market.

However, oil crisis was a necessary, but not sufficient condition for the explanation of the economic policy. After all, with a population of only about three million Libya was better placed to withstand the impact of reduced revenues and it still had considerable overseas investment and reserves and its oil resources. In fact; at first the state tried to cope with the crisis with a stabilisation programme designed to address the imbalances in the economy rather than structural reforms and these policies were to a major extent successful economic terms. In order to understand why the Libyan leadership ultimately adopted economic reform policies one has to take into consideration the domestic politics.

The effects of the strong international pressure-economic, political and ideological were enhanced because of the domestic factors. These developments, especially reduced oil revenues, exposed serious shortfalls in the Libyan economy. The former policies that were adopted by the Libyan state, such as the creation of the state supermarkets, arms policy, development priorities, the radicalisation of the state compounded the vulnerability of the system to such shocks.

Moreover, the stabilisation policies that were adopted state in order to address the problems created by the revenue slump further complicated the situation. Although these policies seemed to be successful in a macroeconomic sense, they in turn exacerbated growing dissatisfaction with the state and, especially, increasing shortages made the state the target of discontent. In fact, criticism from the Libyan leadership was crucial in persuading the state institutions that a change in economic policy was necessary.

End Notes

(1) **Foreigners in Libya, 1983**

Egyptians	174,158	Indians	23,472
Rumanians	17,868	Tunisians	73,582
Italians	14,906	South Koreans	17,483
Yugoslavs	12,707	Thais	13,383
Palestinians	12,042	British	10,674
Poles	10,430	French	2,743
Bulgarians	8,942	Russians	6,233
Greeks	2,277	Germans (East and West)	5,570
Total including others	569,000		

Source: Secretariat of Planning, Libya, 1986.

(2) Exxon, the biggest oil company in the world, represented in Libya since 1955 by Esso Standard and Esso Sirte, was operating four concessions with 49 percent participation. Exxon sold its Libyan interest to N.O.C for 95 million dollars.

(3) Following the partial lifting of the U.S trade sanctions in 1989 negotiations were held about the conditions for their return. However, the Bush administration's decision in early 1991 to continue trade sanctions against Libya deadlocked the negotiations. They were frozen by the U.N sanctions imposed in March and effective from April 1992.

(4) For example, a U.S Company Brown and Root was working on the G.M.R project and at Ras Lanuf. Another company, Price Brothers licensed their pipeline technology for the G.M.R. project. After being given authorisation to do so on the grounds that the project was a "humanitarian" one.

(5) **Value of Weapons Purchases: Cumulative 1979-1983**

Supplier	Value ($m n)
USSR	5,800
France	850
Italy	700
Czechoslovakia	575
West Germany	380
China	310
Rumania	310
Poland	230
UK	40
Others	2,900
Total	12,095

Source: EIU,1990.

CHAPTER FIVE THE FIRST STAGE OF THE ECONOMIC REFORM PROGRAMMES

" If the revolution does not correct itself, it must be corrected"
Muammar Qathufi (FBIS-MEA, 27 May 1987: Q2).

5.1 Introduction: The Necessity For Economic Reform Programme

Those were the words of Libyan leader. Muammar Al Qathufi in a meeting with the members of the General People's Committee (Cabinet) and the Secretariat of the G.P.C. They were a reflection of the sense of crisis that was deepening in the state. The G.P.C meeting in 1987 was characterized by unusually critical comments from the delegates, and, finally in 1988 a reform programme was clearly announced. It was clear that a new stage in Libyan economic policy started.

This chapter examines this first stage of economic reforms and their implementation. First, it considers the importance 1987 GBC meeting and the response of the leadership to it. Then, it analyses the reform programme that was adopted in 1988. Finally, the implementation of this programme and its long-term implications are discussed.

5.2 The 1987 General People's Congress Meeting

The meeting that was held in Sebha between 25 February and 2 March 1987 was extremely important one as it debated, for the first time, radical changes in economic strategy "Qathufi's response was to shift his revolution on to a completely new tack. He launched a liberalisation campaign, which a number of Western observers have called "Green

Perestroika" (EIU,1990:61). For example, Cavey (1987:10) discussed that " a speech by the Libyan leader in March could herald a major change in Libya's economic policies akin to the perestroika policy. The delegates in Sebha's meeting spoke on several issues that seemed to deeply concern many segments of Libyan society.

The extent of discontent was obvious when the members of GPC openly called for reform. It seemed that Libyans no longer needed to carry the burden of austerity measures that were imposed in the early 1980's as a response to falling oil rents. At the end of the meeting the GPC adopted resolutions that demanded improvements in the fields of food distribution and the control of prices, and called for measures to ensure reliable supplies of medicine, spare parts and raw materials, and the prompt payment of salaries. Significantly, the GPC also "condemned" the statements-owned General Company for Marketing and Agricultural Production for its failure to manage food distribution adequately and demanded that farmers should be allowed to sell product directly to the consumer.

Agriculture and the food distribution system were at the heart of delegates' criticism. Import agencies also came under attack; there was a call to examine the agencies' operations in order to control prices and ensure the availability of medical products and raw materials. This meeting was crucial because not only the decision to discuss the detail of the proposed reforms represented a departure for the GPC, however, these discussions about the shortcomings of Libyan economy took place at a meeting, which was celebrating the tenth anniversary of the proclamation of the Jamahiriya system (MEED, 1987:17).

The delegates to the Congress were stressing the need for reform, the General People's Committee memorandum that was presented to the GPC still embodied calls similar to the earlier ones: the need for financial stringency, agricultural improvements, and changes in the banking system. As such they reflected the government's concern about the cash flow problems and the desire to decrease spending. Accordingly, the 1987 budget prepared by the Secretariats (Ministries) and approved by the GPC pointed to further austerity and continued import restraint (Table 5.1). It was decided that the spending had to be cut to 1985 levels or less.

The hardest hit was the development budget, which was almost 15 percent less than it was in 1986. The G.P.C stressed the serious need to concentrate on unfinished projects from the 1981-1985-development plan (1). The administrative budget was down by nine percent. The relatively small cut in the import budget (three percent less than 1986), however, reflected the concern that imports could not be cut further without provoking unrest.

Table 5.1: Libya budget, 1985-1987 (LD'000 Million)

	1985	1986	1987	% Change/1986-87
Administrative	1.20	1.36	1.24	-8.8
Development	1.70	1.70	1.45	-14.7
Imports	1.50	1.41	1.37	-2.8

Exchange rates: \$1= LD 0.2960 (1985); \$1= LD 03174 (1986); \$1 LD 0.3127 (January-February 1987).

Source: The Central Bank of Libya (1988-1990).

5.3 The Collapse of Industrial Base

The Libyan Leader's speeches in 1987 reflected the concern voiced at the GPC. During the year he outlined ideas for economic reform and for the first time talked about the need for privatisation in the Libyan economy. On March 26 a speech that was broadcast on Libyan television he acknowledged that distribution of goods was a problem and said excessive prices were charged for several items. He criticized the deficiency of food in the markets and the fact that people had to wait in line for everything. Although he said that he still believed that public markets reflected justice "as there one buys a commodity for five and sells it for five", he admitted that this had not been achieved and that people still bought for five and sold for fifteen (EIU, 1987 (2): 13-14).

In an effort to alleviate the difficulties of shortages and high prices, he said, the private shops and businesses would have to be re-established and markets re-organized. Qathufi's recommendations for reform amounted to a significant shift away from the radical policies of earlier years in which virtually all private enterprise was proscribed. He stated that:

> "People should now be allowed to own cafes, restaurants, hotels and small shops provided they do not employ others... any private activity has an element of exploitation, but when it becomes a necessary service we accept this exploitation" (AL-Sijlll A-Qawmi "National Register", 1990).

He admitted that the present state-owned trading system has produced a "bad and serious" situation in which people are " lining up for food", paying high prices and finding little to buy in the shops. The Libyan leader also encouraged the establishment of partnerships between family farms to boost agricultural productivity, noting that he had come to see the need for such measures after spending two months in the countryside analysing and evaluating the problem. By 1991, the Libyan leader expressed that:

> "It is incredible that the state plants, plows, harvests, teaching, cleaning the roads and creates the gardens....that is non-expectable any more, If we actually have done that during almost 25 years, it is totally enough" (Al-Sijlll A-Qammi "national Register", 1991).

According to the Libyan leader, without compromising the basic principles of the revolution, private participation needed to be encouraged also in service and light industries. He criticised inefficiencies in these industries by giving examples. He mentioned effort to build factories to produce food, clothes, furniture and other goods, which never started to operate. He talked about the cement industry and said a government study showed that the total production of Libya's six cement factories was equal to the production capacity of just one factory. The major reasons that most of the state owned enterprises failed in achieving their targets are discussed in chapter five.

Therefore, the Libyan leader explains, "apart from the heavy industry, which should be owned by the state, all factories should be given to the workers" (FBIS-NES, 20 January, 1988:12-14). In this respect, Vandewalle (1998: 83) discussed the changes of structure of political and economic system during 1970s-1980s, he wrote: "economically and politically, the state had been thoroughly transformed by the end of the revolutionary decade (1973-1982): the state institutions had been put directly into the hands of the people through a system of political congresses and committees and all private economic activity had been outlawed...The creation of this congress-and-committee system closely dovetailed with the ideological and political inclination of the state". However, Hudanah points out, (2004:8)

> "...in practice, a private manufacturing sector does not exist in Libya, as this sector has already disappeared since the late seventies. Then it started to emerge in the last decade of the past century. This would indicate that this sector is not currently in a position to bail out the units on offer for privatisation; let alone undertake the task of leading the economy in the globalisation age. This is an honest point of view without being courteous or biased. Most of the units on offer for privatisation are either already in ruins,

> or under way to become so, and therefore do not appeal to any useful action of economic interest. Moreover a number of these units need to be technically rehabilitated in order to become attractive for a useful action, given that the rehabilitation costs are equivalent to the cost of purchasing modern technology without obtaining it".

After Qathufi's several speeches, the state started to study the methods in which the new proposals for economic reform could put into practice. At a joint meeting of the GPC's Secretariat and that of the General People's Committee it was agreed that there should be individual ownership of "production establishments and service utilities". The meeting set up three committees to investigate distribution, agriculture and industry. Its discussions reflected the concerns voiced at the G.P.C. and echoed in Qathufis's speech about the state of the economy (Keesing's, 1987:53220; MEED, 1987:20-22). Throughout the year Libyan leader continued to address Libya's economic difficulties. He met the members of GPC and municipality officials on May 23rd he severely criticise the state of the Libyan industry and warned that "industry in this country will not progress" and added:

> "We expect that in the coming period the industrial base we have established will collapse. We set up heavy and light industries, but without any use. They have not satisfied consumption, have not developed... and have not provided goods and low prices" "(AL-Sijlll A-Qammi "National Register", 1987).

However, he attempted to put most of the blame on Libyan workers: He described a factory where workers sold raw materials and thus brought production to a standstill. Decrying chronic absenteeism, he accused Libyan workers of a "lack of commitment" and castigated them for living on money, which they did not earn by work (EIU, 1987 (2):14-15).

What was the solution? The Libyan leader put forward a proposal for a new structure for Libyan industry (2). Heavy industry would remain under the control of the state. However, these industries had to “abandon” their restrictive practices” and adopt management techniques as practiced in other countries. The medium-and light industries, on the other hand, would become enterprises of small groups of “Partners” or of a “Productive Family” (EIU, 1987 (2):14-15). Moreover, industries in the future should only be set up if they utilized raw materials available in Libya (Keesing’s, 1987: 35220).

The Libyan leadership took the criticisms that were made by the delegates at the GPC meeting extremely seriously. They not merely publicly acknowledged the country’s difficulties, but also accepted that a number of the policies that had been implemented failed and there was a need to re-evaluate and change several of these policies.

There seemed to be a concern that the widespread discontent about the quality of life in Libya was directed against the ruling elite, especially Qathufi himself. An article written by Sayyid Qathufi, a cousin of Libyan leader and an army official, in the revolutionary committees, political publication, AL Jamahiriya in June 1987, reflected this concern: “The worst thing of all was that Libyans had not had the courage to assume responsibility for failures, but had instead attributed all mistakes to the man who saved us, from backwardness”(MEED, 1987:19).

The economic situation had clearly not been improved. Although OPEC’s December 20 agreement resulted in an increase in oil prices, this partial recovery was offset somewhat by a reduction in Libya’s volume of oil production in accordance with the country’s OPEC quota and the erosion in the value of the dollar against the currencies of the main European countries from which Libya bought the bulk of its imports.

1987 was a transition year during which the policy makers were attempting to formulate a new set of policies to deal with the economic and political crisis. Although there were clear signs of change, the position of the government remained precarious. In the meantime, the administration continued to curb imports by reducing state expenditure and increasing custom duties on luxury goods. Major Jalloud "R.C.C Member" said in his July 18 address to a meeting of the GPC secretariats and the secretaries of General People's Congresses that the problems of financing the budget must be tackled by reducing it by 50 percent, establishing firms to implement programmes, reducing the work-force, increasing productivity and administering certain services through cooperatives. He said the only positive aspect of Libya's financial situation was that the country did not have any foreign debt (EIU, 1987 (3):16). Large development projects, however, were frozen (3) and greater selectivity was shown before entering into new contracts (EIU, 1987 (2):15) the large exception was certainly the G.M.R. project.

Nevertheless, revolutionary committees were in opposition to these economic reforms. For instance, articles in *AL-Zahef Al-Akhder and Al-Jamahiriya,* the newspaper published by the revolutionary committees, decry the return of the capitalist exploitative society. They constantly demand the re-establishing of the socialist system as preached by the Third Universal Theory. Also, opposed to these reforms are the heads of public economic institutions that fear the loss of their positions and privileges.

According to Mogherbi (1998:174) "economic reform is supported by technocrats at the General People's Committee and other economic and financial experts in the universities and other institutions. Jallud "member of RCC" is also known for his support of these reforms. Economic and financial realities make it more likely that Libyan leader will need the advice of theses technocrats and experts rather than follow his revolutionary instincts, as a matter of necessity if not of conviction".

5.4 The Economic Reform Programme (1988)

1988 was the year in which the series of policies that constituted an economic policy shift were announced. The first set of policy decisions were made during the GPC meeting in Town of Ras Lanufin between 2-9 of March. The delegates once again complained about wages not being paid on time. The congress also criticized various shortcomings, such as the "apparent shortfall in imports in clothes, raw materials for production, medical equipment, durable goods, [and]...the non-availability of vehicle and spare parts...delays in allocation of credits leading to the failures to import necessary commodities soon enough" (EIU (4),1988).

Aware of fiscal problems, Congress called for tight controls on spending, yet, interestingly enough rejected a proposal for fees to be charged on health care and education and tolls on highways. The 1988 budget, which totalled LD. 4,308 million (14,800 million dollars), still represented an increase of six percent above the budgeted 1987 level, however, it was less than 1985 budget (Table 5.2). This time here was a 6.6 percent cut in the development budget, whereas the administrative budget almost remained the same. Importantly, there was an augment in import budget; despite most of the 24 percent increase being due to the decrease in the value of the Libyan dinar against the dollar and the European currencies.

Table 5.2: 1988 Budget LD million (U.S.$1= 0.2799)

Administrative	1.2 bn. ($4.2 bn)
Development	1.3 bn ($4.6 bn)
Imports	1.7 bn ($5.8 bn)

Source: Central Bank of Libya, 1991

Apparently concerned with growing discontent about the economic difficulties, in his speech to the GPC, the Libyan leader attempted to defend the revolution and implicitly critically, as he often did, what he regarded as the "excessive consumerism" of the Libyan society:

> " The revolution did not promise the masses that the sky will rain benefits and that it will provide money. But the revelation provided the masses the declaration of freedom, and it released the masses from their shackles to enable them to decide on, work for, and produce what they like". (FBIS-NES, 5 January, 1988:10).

Nevertheless, it was the Libyan leader himself who announced economic liberalisation measures in September during his celebration speech, where he criticized state agencies and officials for inefficiency and corruption. He accused state enterprises of favouritism, being bureaucratic, office oriented and managed by officials who care about nothing except their salaries without paying attention to needs of people (EIU, 1988, (4): 9).

Moreover, the Libyan leader called for more private economic enterprise and welcomed the flourishing black market saying that " they are the people's markets" since they occurred as a result of " a spontaneous decision of the people made independently of the government" and created " something people [needed]" (FBIS-NES, 1 September 1988:18). The same week he announced that they were going to set up "*a Jamahiriya-* bourgeois type state, a society prosperity for every citizen prevails through self-effort" and called for Libyans " to endeavour to become rich and not to be ashamed of turning into bourgeois" (EIU, 1989, (1):5).

5.5 The Economic Policies Adopted in 1988

It is crucial to explain the economic measures, which were adopted in 1988 by the state. These measures can be shown as follows:

5.5.1 Law Number (8) on "Collective Ownership" (Tashrukiya)

This law called for a new form of cooperative ownership of productive enterprises to replace the centralized state ownership, The Libyan leader said the new structure should be applied extensively but not universally " Factories should not belong to a public body, except those, which Libyans as a group, as administrators, are incapable of running. For instance, a petrochemical complex, an iron and steel complex and a chemical complex". However, he explained, the state should no longer subsidise the medium- and small-scale industries:

> "...Why should the state own them? In order to distribute the income among the people. But if there is a group of Libyans who own such a utility, another owns that utility, etc. then there is no need for a state. Take any factory and make Libyans own it-the important thing is that it should be owned by Libyans ".(Al-Sijlll A-Qammi "National Register" 1988:155).

In another occasion, he has confirmed the same opinion that:

> "The Tashrukiyat (Partnerships) system must be prevailed throughout Libya, there should be Tashrukiyat (Partnerships) for exporting, importing and others for construction, agriculture and industry. Therefore, any one will have the right to conduct any productive and service activity through his effort without exploitation of others. Any sort of group of Libyan society either it is large or small could equally participate together in any type of service or productive activity. Whereas, the massive efforts, (Large Enterprises), which the partners are

> not capable to operate them for the society itself, the workers within such enterprises are partners in the production and not wages".(Al-Sijlll A-Qammi "National Register" 1988-1989:629).

In this context, the Director of Chamber of Commerce asserted these ideas, he said:

> "In 1988 new orientations to adopt different methods of the previous years and which ensured the intention to change the structure of the economic system, the new shape depends on free economy and markets. The major aims of these directions, however, to open the way for individual participation and encourage them to participate constructively in economical activities and also to provide them a principle role in the economy. It is extremely significant, in this period, to move the development machine continuously. To enhance these decisions, the state has implemented many regulations such as; the issuing of the law number (8) for the year 1988, which concerns the rules related to economic activities. This law confers the right to the individuals to own and invest in agricultural land, factories and provision of commodities".

Another clear remark regarding this matter has been pointed out by the General Clerk of General People's Committee of Finance, he reported that:

> " The state has perceived the role of the private sector since 1988 and established the laws and regulations to increase its economic activities. Because of the seclusion for two decades, the private sector confronts a clear weakness in technical and financial resources and has limited capacity to compete. In addition, it works within a framework of legislation that limits its freedom within economic activities"

This new form of collective ownership called *Tashrukiya* (self-management) was, in practice, an arrangement that fell between private and state ownership, in which every worker must share in the capital and the profits. These industries would be owned by both the producers in the company and those who wish to participate in its shares. Each company owner could either mortgage the shares he owned or he could sell them. The partners could undertake to select the Administrative People's Committee of the cooperative. Under this new system eight percent of a company's turnover would be handed to the state, with the net profits being divided up among shareholders in proportion to their wages (FBIS-NES, (6) September 1988:17). This law allowed for the first time since 1977 curtailed private sector involvement in the state-dominated economy.

5.5.2 The Privatisation of Retail Trade and Service

Particularly since 1982 with the opening of huge state supermarkets, at least in theory, private ownership in retailing and services had been virtually eliminated. Reversing its policy the government announced the reopening of private small shops. Mogherbi (1998 :172) describes the situation of the Libyan economy during this period, he wrote;

> "In order to halt the slide of the Libyan economy, and in response to the growing paralysis of economic activities, the Libyan government introduced economic measures, which allowed for gradual liberalization of Libyan economy and the return of the private sector in trade, service, and light industries. However, The General People's Congress approved important changes in economic policy, and provided some engorgement to private enterprise. It issued Law No.8 of 1988, which introduced substantial changes to the structure of Libyan economy. The Law made it legal for Libyans to engage in all kinds of economic activities, privately or with partners, including farming, industry, commerce, and services. (Article 2) Libyans are, theoretically at least, expected to work as partners, and not as managers and employees. On the other hand, the revival of private retail trade has nothing to do with partnership but everything with private enterprise".

It was clear that Libyan merchants and new businessmen learned to use the label "partnership" as cover for their "capitalist activities", with new opportunities opened up by the abolition of state import and export organizations. Privatisation measures also included allowing lawyers, physicians, and other professionals to open private offices and clinics. Thus, the private sector was allowed to implement the business on which the state put many regulations that determined the size, shape and limit of trade in its new form where the state executes the business with the private sector. In other words, the private sector conducts the business with the presence of the state, which is called controlled trade.

5.5.3 Dismantling of State Trading Agencies

In his September speech the Libyan leader declared that " all export and import institutions, which import the largest part of people's needs, will be abolished; and the Libyans will be able to import and export in complete freedom" (FBIS-NES, 6 September, 1988:13). This was a complete turnaround from the previous policy, which was based on state ownership of import and export agencies. In the same speech he acknowledged the complaints about the importing agencies and used these complaints as the reason for the decision to liberalise the foreign trade. He said, for instance, people regarded the company that imported cars as;

> " Involved in favouritism and bribery and nepotism and thus an unsuitable institution. It sold cars at high price, took one to two years to deliver cars, brought in cars without spare parts, and mixed up all types of cars. It sold spare parts under the counter for its cronies or friends. Let us suppose that all these accusations exist-although I am convinced that they do not exist, but let us suppose that they do. We will therefore have to revoke and abolish them. Then you Libyans will have to import your cars and your spare parts...you will have to know how to sell and distribute them". (Al-Sijlll A-Qammi "National Register", 1988).

5.5.4 Greater Decentralisation and Removal of Several State Subsidies

The General People's Committee decided to increase its efforts in taking power away from central government and providing it to local people's committees. It was hoped that this would reduce the burden on the central government. The government also announced the removing of subsidies on wheat, flour, tea and many items in order to decrease government expenditure and balance the budget.

5.5.5 Changes in The Agricultural Sector

It was announced that farmers could sell their produce directly. Before they were obliged, for most part, to sell them through government-run outlets (4). Furthermore, the leeway allowed for private enterprise in farming expanded with the decision to distribute loss making farming projects to private owners. In his September 1st speech, the Libyan leader explained the reasons for this new policy as follows:

> "The peasants who want to sell their produce are free to do so. The company for the distribution of agricultural products will be revoked, because it is incapable of buying the peasants' produce-when it does buy the produce, it rots and is thrown into the sea. This maintains the price for the peasants while people are desperate for the produce... All these can be ideal: a company buys all the produce and sells it to the people, but it has not happened...Let [peasants] set up private companies, cooperatives, committees, or a rotation system. Let them sell their produce on the domestic market or abroad ".(Al-Sijlll A-Qammi "National Register" 1988, :14).

5.5.6 Reorganisation of The Oil Sector

The state became more committed to take its oil industry downstream and increase its petrochemical production (5). Special attention was given to widen the overseas refining and marketing base. To this end, in April 1988, a new Oil Investments international Corporation (Oil invest) was set up as a holding company with a capital of 450 million dollars to oversee all Libya's foreign investments in the hydrocarbon sector (6). This was a turnaround from the past couple of years where there was a lack of investment in oil field development programmes (EIU,1992).

5.6 Political Changes

The objectives of the reform policies were not merely economic; but they also included changes in the body politics. Even before most of the economic policy changes, the state announced several changes that aimed at the relaxation of its political control. Aware of the public discontent over the conduct of the revolutionary committees, Qathufi sharply attacked what he described as "negative aspects" of some members. In March 1988, in a speech at the 11th conference of the revolutionary committees, he condemned "individual terrorism" and said that many people had "infiltrated" the movement and "liquidated" political opponents. He expressed his desire to see greater recognition of human rights (FBIS-NES, 1 September 1988: 1-12).

Following this speech a new Secretariat for *Jamahiri*_Mobilization and Revolutionary Guidance was created to limit and institutionalise the power of the revolutionary committees. Therefore, responding to the public discontent, the state decided to curb some of excesses of the revolutionary committees. The Libyan leader was extremely careful in his speeches not to alienate all the revolutionary committee members. In this respect, Vandewalle (1996: 94) discuses, "although Qathufi continued to argue that the committees did not exercise power and that they formed no contradiction to the basic congresses, his insistence that *la thawri kharij al-lijan ath thawriya* (no revolutionaries outside the revolutionary committees) marked the beginning of the separation of formal authority –as embodied by the congress and committees system-and revolutionary authority. In theory, each was confined to its responsibilities within its own institutions, a development Qathufi hinted at when he noted that an "authority is one thing, and revolution is another".

Moreover, he directed his criticism to the "bad apples" within the organisation. This was understandable because of the role of such committees came to play within the Libyan political system. First of all, they were ideologically the most mobilised section of the population.

Their loyalty and vigour had been extremely useful for the state, more so because of Qathufi's distrust of the army. Thus, they played an important role in providing security within Libya. Secondly, the committee members had significant contacts with the ruling cadre, many members of which were in the revolutionary committees themselves before they joined the higher ranks of the government, due to such reasons the committees had become a crucial part of the political system and Libyan leader could not risk to totally alienate them. In a discussion in which the Libyan leader participated during a television appearance while the liberalisation process was going on in the spring 1988, he commented on the role of the revolutionary committees:

> "It has not changed...We are now more in need of the revolutionary committees that ever before...We want to prove.. that the revolutionary committees are the allies of the people that they are on their side.. They are not, as people in prison and the people abroad say, the enemies of the people. If there are excesses like this-and it is possible that some people may have been imprisoned...and they may even have died because of this. [But] this is not revolutionary.... but this dose not mean that the philosophy of the revolutionary committees is wrong. Its philosophy is one hundred percent correct. The movement of revolutionary committees is like the Free Unionist Officers movement. We cannot continue with the revolutionary program without the revolutionary committee in every basic people's congress...you cannot go ahead without revolutionary committees. If somebody says that the revolutionary committees are an assault on people that is incorrect. Never" (Summary of World Broadcasts, BBC London, SWB/ME/0144/A/2-3,6 May 1988).

On 3rd September,1988 an estimated 400 political prisoners were released after Qathufi personally mounted a bulldozer to knock down the walls of the *Furnash* prison in Tripoli. He also personally supervised the destruction at the public records office of the blacklists containing the names of thousands of Libyans banned from travel abroad. Libya opened its borders for free travel and made a conciliatory gesture to Libyans in exile by dropping the government's previous insistence on the return of Libyans living abroad on the condition that they had to provide assurance of their loyalty.

There is no doubt that these changes culminated with the unanimous approval of the "*Great green Charter of Human Rights in the Age of the Masses*" at the emergency session of the GPC that was held between June 11-12. The document called for freedom of movement, association and expression, and for fair trials; it restricted the circumstances in which capital punishment was applied and aimed at its ultimate abolition (7).

It also guaranteed the right of minorities and outlawed racial religious, or sexual discrimination, and called for the abolition of the arms trade and all weapons of mass destruction. Regardless of the issue of the extent to which these rights would really be protected in Libya, the mere fact that they were enacted was interesting in showing the government's desire to send the message of moderation to its own public and to other States. It became clear that to some extent it was quite successful in sending that message when Libya got praise from the Amnesty International for these policy changes (Darwish, 1988:17).

5.7 Changes in Libya's Foreign Policy

During this period Libya also adopted a new, more conciliatory foreign policy. As an outcome, its relations with the outside world considerably improved. First of all, the Libyan leader openly admitted the problem of Libya's involvement in Chad, despite the fact that he regards Chad as an extension and a necessary buffer for the security of Libya. In his Speech at Tripoli on 5th March 1982, Libyan leader clearly declared that:

> "Libya is the defender of Africa.... We are the ones interested in peace in Chad.... Because we are an extension of Chad and Chad is an extension of us" (AL-Sijlll A-Qammi "National Register", 1982).

Waller (1999: 302) argues, "Libya's war in Chad was irrational. In two decades of military adventurism Libya failed to decisively achieve any of its war aims yet inflicted serious damage upon itself. Domestically, the war diverted scarce resources from development, yet produced no obvious benefits. By every conceivable measure Libya's war in Chad was counterproductive".

The Libyan leader declaring his conflict with Chad "definitely finished" sent his foreign minister to work out the details of Libya's withdrawal (op. cit :203-204). In addition, for the first time he labelled his country's military engagement in Chad as a mistake that has done damage to Libya and should be rectified. Therefore, Qathufi accepted the end of his ambitions in Chad with stunning equanimity. This above all meant that the untold millions of dollars spent on the war effort had been squandered, that the thousands of lives lost had been wasted, that the victories won had been hollow and the defeats endured had been meaningless. According to (Vandewalle, 1991:75) "The war in Chad has proved a steady drain on Libya's economy since its inception. No single issue in recent Libyan politics has been as divisive as the conflict over the *Aouzou* strip "which is claimed by both countries", see map (5.1).

Map (5.1) The Location of Aouzo Strip between Libyan and Chad

Libya's eventual defeat in northern Chad inside Libya was the source of serious friction among the leading members of municipal committees and secretariats in the country. Consequently, the two states announced a cease-fire in September 1987. This was followed in May 1988 by recognition of President Habre's government and restoration of diplomatic relations in October of the same year.

In August 1989 they signed an agreement in Algiers on the settlement of their dispute and both sides agreed to go to the International Court of Justice (I.C.J) for arbitration if they could not solve their problems, In the meantime the strip would be administered by an African observer force. This, certainly, helped to open the way for the improve of relations with many African countries and more acceptance in the O.A.U. In fact, in 1988 Libya restored diplomatic relations with eight African countries (8). Niblock (2001:299) points out, "In 1989, Tunisia was offered a share in the oil production of the continental shelf between the two countries, and some of the border controls on the land frontier were removed to facilitate trade".

The Libyan state also managed to establish closer relations with its North African neighbours. Negotiations that were mediated by the International Labour Organisation (ILO) resulted in the settlement of claims to unpaid salaries of Tunisian workers in 1987. Accordingly, diplomatic relations were restored between Libya and Tunisia after almost two years. Rapprochement between the two countries continued when on May 22, 1988 Colonel Qathufi travelled to meet Tunisian president Ben Ali. At the end of the meeting a bilateral convention was signed to introduce bi-national identity cards, to guarantee freedom of movement for persons and goods between the two countries, and to establish the right to reside and own property for citizens of Tunisia and Libya.

Libya's relations with Algeria also improved markedly after Qathufi's January 1986 meeting with President Chadli Benjedid at the Algerian border town of *In Amenas*. Libya also signed several agreements with Algeria that aimed at increasing economic cooperation. Such improvement of the two countries relations has been emphasised by (EIU), (1990: 52) "by July 1987 plans were afoot for comprehensive political and economic union.

Algeria appeared to be offering Libya much needed friendship in the Arab world, hoping this would prompt the reform of Libyan foreign policy. Algeria ran into criticism for doing so from the USA, which it had been assiduously cultivating, but has steadfastly held to the view that Qathufi is easier to influence within a club than by being ostracised. Nevertheless, the union did not materialise, the relations between the two countries remained cordial". In addition, as with Tunisia, an agreement on the free movement of citizens of both countries was signed in July 1988. The North African cooperation reached its peak when Algeria, Libya, Mauritania, Morocco, and Tunisia signed the document establishing the Arab Magribi Union (AMU) in February 1989.

Relations with the rest of Arab countries also changed during this period. While Libyan relations with Syria and Iran, two countries that Libyan state enjoyed good relations, deteriorated. Libya restored diplomatic relations with Jordan and Iraq (9), in 1987 and 1988 respectively. The PLO office in Libya was reopened in May 1987 as a result of the culmination of a process of reconciliation between the Arafat wing of the PLO and Libya, which began in early 1987. In November 1988 Libya recognised the Palestinian State proclaimed by the National Palestinian Council in Algiers (EIU,1988).

Most importantly, a gradual thaw in relations with Egypt started. On March 28, 1988 the Libyan government announced the reopening of it borders with Egypt and the resumption of all telephone and telegraphic communications between the two states. Egypt responded by closing down Cairo broadcasts of the voice of Libyan People, and, Libya stopped broadcasts of The Voice of Free Egypt from Libya. The Libyan leader made his first appearance at the Arab summit in Algiers in June 1988 after a ten-year absence, publicly hugged Egyptian President Mubarak and agreed to restore full membership of Egypt in the Arab League. These developments were extremely significant considering the state of the relations between the two countries since 1973.

They had reached their lowest ebb in 1977 when a clash between Egyptian and Libyan army units erupted at the border. Since the Camp David accords Qathufi had condemned Egyptian presidents as "Western stooge" and declared Cairo an "occupied capital" because of the presence of an Israeli embassy (EIU, 1988 (3): 8).

According to Waller (1999:273) "rapprochement with Egypt was another sensible move under the circumstance, as it reduced the threat of the United States working in concert with Cairo against Tripoli. But reconciliation was also a capitulation on Libya's part, since Tripoli was forced to abandon its insistence that Cairo renounce the Camp David accords. Moreover, as relations between Egypt and Libya warmed, Qathufi improbably suggested that there had been no capitulation at all. Egypt, he hinted, was secretly dedicated to fighting Israel: We have agreed about strategic matters. We have to keep our affairs secret. It soon became apparent, which of the two countries needed the other more".

Libya managed to slowly improve its relations with Western European countries as well, for trade figures see (Tables 5.3; 5.4). Italy was first to improve its relations with Libya not surprising considering the special relations between the two countries. In 1989 the Italian Merchant Navy Minister's visit was the first by a Western European minister since the April 1986 E.C. decision to ban high level contacts with Libya.

After that, the Belgian foreign Trade Minister arrived for talks on contracts worth up to 90 million dollars for which Belgian companies have been negotiating, (George,1989:19). Relations with France also improved especially after the Libyan-Chadian-fire. In July 1989 Paris lifted the ban on sales of non-offensive military equipment to Libya. And, finally, diplomatic relations with West Germany were upgraded in 1988. Libyan attempts to improve its relations with the outside world bore fruit when, in a stark contrast with the recent ones, 19 heads of state and a large number of foreign guests attended the September 1 celebrations in 1989.

Table 5.3: The Main Libyan *Exports* Trading Partners, 1988-1990 (LD. Million)

Country	1988		1989		1990	
	Value	%	Value	%	Value	%
Italy	799,2	86,8	1168,8	48,6	179,5	47,9
W. Germany	135,2	41,9	129,2	5,4	243,1	6,5
France	250,7	7,1	235,2	9,8	320,5	8,5
U.K.	32,3	13,1	45,9	1,9	66,8	1,8
Holland	96,0	1,7	132,8	5,5	104,7	2,8
Belgium	49,2	5,1	54,5	2,3	82,5	2,2
Spain	127,7	2,6	210,3	8,7	344,5	9,2

Source: Central Bank of Libya, annual report (37), (1992-93:98).

Table 5.4: Libya: The Main *Imports* Trading Partners, 1988-1990 (LD. Million)

Country	1988		1989		1990	
	Value	%	Value	%	Value	%
Italy	362,4	21,6	357,3	24,2	279,7	18,5
W. Germany	196,3	11,7	217,7	14,8	221,1	14,6
France	76,8	4,6	100,7	6,8	111,3	7,4
U.K.	142,7	8,5	122,6	8,3	127,4	8,4
Holland	55,0	3,3	48,9	3,3	84,5	5,6
Belgium	37,1	2,2	39,9	2,7	41,9	2,8
Spain	30,2	1,8	18,1	1,3	14,5	1,0

Source: Central Bank of Libya, annual report (37), (1992-93:112).

However, Libyan-U.S. relations remained strained. The U.S government accused Libya of manufacturing chemical weapons at a plant in Rabta site in September 1988. The U.S. also, opposed the Libyan nomination to chair the legal committee of the U.N. General Assembly. Relations further deteriorated when two F-14 U.S planes shot down Libyan MIG 23 jets off the Libyan coast in 1989. In the same year in April Washington claimed that Libya had been involved in terrorist acts against the U.S. targets (EIU, 1988, (4):8).

On December 28, 1989 U.S. President Reagan issued a statement saying that the Libyan government continued to use and support international terrorism. Although Tripoli hoped for better relations with the U.S. after Reagan and made this desire public, the relations between the two countries remained the same. Similarly, Libya's overtures to Britain by criticising the I.R.A. remained unanswered. The British government also sided with U.S. on the issue over the alleged chemical plant and the shooting down of the two Libyan fighters.

Another attack on 2 April 1986- the bombing of a Berlin disco frequented by U.S. service personal-caused the United States to move from sanctions to military action and the European Community to impose some limited sanctions on Libya. The U.S. military action involved air raids on targets within Libya, including Qathufi's residence in the "Azizia barracks" and various civilian targets in Tripoli and Benghazi. The clear intent was to assassinate the Libyan leader from the air (a well-authenticated report to this effect was written by Seymour Hersh and published in Sunday Times, 22 February 1987). Qathufi narrowly avoided injury, but his adopted daughter died in the attack. Although President Reagan referred to there being "incontrovertible evidence" linking Libya to the Berlin bombing, later evidence suggested that Libya may not have been implicated (10).

The Libyan leader, however, made a number of conciliatory gestures to Britain and the United States: all such approaches have been spurned. In May 1991 the Libyan General Secretariat (Minister) of Foreign relations Abrahim Mohammed Beshari declared 'of Britain and the U.S.' "They have their position, we have ours, but that should not prevent the establishment of normal relations...In the framework of mutual respect and non-interference in internal affairs" (Waler, 1999).

In response a UK Foreign and Commonwealth Office statement read. They cannot be any improvement until there is convincing evidence that Libya has renounced international terrorism, including support for the Irish Republican army. Also, the "U.S. State department commented in June 1991. We have not seen any particular change. Libya is still supporting terrorism, destabilising states and pursuing development of dangerous weapons systems. We will need very strong signals before a review of relations can take place" (Simons, 2003).

Nonetheless, the Libyan leader called again for face-to-face negotiations with America. The offer to enter negotiations was immediately reiterated by General People's Committee Secretariat (Minister) of International Communication and International Corporation

Jadallah Azzuz AL Talhi: "We are ready for dialogue.... and awaiting the response of new U.S. administration" (SWB ME/0427i, 6 April 1989). For several months Tripoli continued declaring its interest in normalizing relations and hailed the decrease in tensions brought about by Bush's rich political experience (SWB ME/0584, 11 October 1989; SWB ME/ 0598 A/3, 27 October 1989).

As a result negotiations between the Libya's NOC and the U.S. oil companies started. The U.S. government allowed to resume lifting Libyan crude for non- U.S. destinations only. It did not say anything about the problems of payments, supply of spare parts, and the presence of the U.S. nationals in Libya. These restrictions created problems since Libya wanted a full relationship with companies and the negotiations produced no result.

5.8 The Implementation of The 1988 Reform Programme

How much of the reform policies have been implemented (11)? The immediate effect of the new policies was the opening of private shops. In fact, in July 1988 first the old *Sug* "Shop" of Tripoli's Green Square opened. The same occurred in other cities and towns. The journalists who visited Libya in the following year talked about the abundance of consumer goods in the many shops and booths that lined the streets, disappearing queues, and a relaxed atmosphere in Tripoli and Benghazi cafes (EIU, 1989 (3): 5; The Independent, 1st; April. 1992).

The availability of consumer goods was to a great extent the result of another reform policy: the privatisation of export-import trade. The import of thousands of new cars was allowed, for instance, after a long freeze on the sale of new vehicles and to this end the government released 200 million dollars just for 1988 (Financial Times, 1 September 1989;

Lycett, 1989:135). However, it was soon understood that the abolition of state export and import monopoly remained confined to the trade in consumer goods. The state, continued to import several consumer and non-consumer goods. The government decrees in 1989 stated that gold; tobacco; medicines; insecticides; petroleum products and some foodstuffs remained state import monopolies.

The 1989 budget set aside LD. 150 million (approximately 510 million dollars) for imports by individuals and partnerships. There were, however, reports in the foreign press about several state officials who were diverting allocations to friends and relatives (The Reuter Library Report, December, 1989). In any case, the amount of money that merchants could receive for imports was restricted to 10,000 dollars a year. On the other hand, in a surprising recognition of the existence of black market in hard currencies, it was also accepted that the private businessmen could also import goods with their own foreign exchange.

Despite these restrictions, trade with Tunisia especially flourished following the lifting of travel restrictions and the availability of foreign currency. This trade to a large extent included "suitcase tourism". More than a million Libyans, "about a quarter of the population", visited Tunisia alone in 1988. In addition, a new boat connection was inaugurated in July 1988 from Tripoli, Benghazi, *Misrata* cities in Libya, and *Sfax* city in Tunisia to cope with the demand for travel. Libyan tourists, taking advantage of easing restrictions, travelled more often and in 1988 bought foreign currency in the amount of 500,000 dollars to meet their travel and shopping expenses abroad (MEED, 17 November 1989: 4).

On the other hand, especially Tunisian entrepreneurs visiting Libya started to sell rare imported consumer goods and to buy basic commodities that are subsidized in Libya, but not by their own government (12). As a result of these developments, the Libyan trade balance swung into deficit in 1988 for the first time since at least 1973; from 363 million surplus in 1987 to 173 million deficit in 1988, and foreign reserves tumbled.

Furthermore, in January 1989 the state restricted the amount of foreign currency Libyans could receive for foreign travel. The balance of service also took a turn for the worse as hundreds of thousands of foreign workers, again mostly Tunisians entered the country. As an outcome of the deficit on services account grew by 700 million dollars in 1988 (EIU, 1990).

In April 1988 the Executive Authority for Partnerships and small Industries was established to oversee the transfer of control of small state enterprises to employees. In accordance with Law Number (8) employees started to buy shares in companies, either through deductions from their wages, usually over a 15 or 20-years period, or to obtain partnership loans. The partnerships were immediately active in trade and services such as plumbing, hairdressing, car and appliance repairs. Soon mixed-sector ventures started to be established in food, furniture, and clothing factories. For example, by 1991, in the Tripoli municipality alone 292 small and medium size industrial ventures with total assets of LD. 17.8 million (62 million dollars) passed to employees.

The problems of Libyan industry frequently emerged during the discussions in the GPC meetings, which were about the state of Libyan economy and the situation of cement factories that was assessed by Libyan leader at a session of the Basic People's Congress in

Hay al–andalus in Tripoli in January 1988, was representative of problems Libyan industry was facing: delays in opening credits; shortage of manpower; problem of transportation and distribution; shortage of spare parts; shortage of financial liquidity; and, finally, water shortage. Libyan officials repeatedly said that they were pinning their hopes on production by "Tashrukiya – self-management" (The Reuter Library Report, 7 March 1990). This did not materialize. Industrial production in the light industry was static in the first two months of 1989 and sales fell five percent, which resulted in large stocks of unsold goods. More importantly, a report of General People's Committee of Industry in 1990 conceded that the change had not solved their production problems (op. cit).

5.9 Endeavours to Improve the Oil Sector

There is no doubt that oil has been and still remains the dynamo of Libyan development, especially by providing a financial surplus to fund government expenditure. Attempts to increase oil exploration and production accelerated as part of the reform programme. Further exploration and production agreements were concluded with Royal Dutch/Shell Group and Societa Energia Montedison (Italy) at the beginning of 1989, and later, in April 1989. also other foreign oil companies made the same agreements such as Brazil's Brasptro, Canada's Husky Oil. As a result of this policy by 1988 it acquired 5.5 percent of the Italian products market. In West Germany, the second largest market for Libyan oil, in accordance with the reform programme, Libya also increased its refining capacity (EIU,1989 (3): 12).

However, numerous attempts took to reorganise the oil sector were also started with the establishment of a four-person committee in 1989 to plan the reorganisation. In March 1989 the Petroleum secretariat was revived after three years. Niblock (2001:87) highlighted that "the significance of administrative machinery in Libyan policymaking has depended to a substantial degree on the importance of the field concerned with the country's economic survival. The efficient operation of the oil industry, for example, has been left largely in the hands of the administrative machinery (whether in the National Oil Company or the energy secretariat)". Thus, we could say that the Libyan economy is totally dependent on oil revenue, "the Libyan state relies heavily on oil revenues for financing its economic development programs because state revenues come in large amounts from the value added in oil" Mohamed (1997:16), as shown in Table (5.5).

Table 5.5: Production and Exports of Libyan Oil 1980-1991

Year	QT M.BLs	QE M.BLs	VE M.L.D	PO L.D/BL	VT M.L.D	QH M.BLs	VH M.L.D
1980	669.8	644.4	6287.3	9.757	6535.1	25.4	247.8
1981	444.5	410.5	4384.3	10.680	4747.4	34.0	363.1
1982	414.6	384.0	3718.0	9.682	4014.3	30.6	296.3
1983	403.3	370.9	3370.7	9.088	3665.1	32.4	294.4
1984	390.9	353.6	3020.8	8.543	3339.5	37.3	318.7
1985	365.4	325.2	3010.4	9.257	3382.5	40.2	372.1
1986	454.1	376.0	1756.8	4.672	2121.7	78.1	364.9
1987	355.0	321.2	1547.0	4.816	1709.8	33.8	162.8
1988	367.0	327.4	1790.0	5.467	2006.5	39.6	216.5
1989	412.4	358.9	2293.6	6.391	2635.5	3.5	341.9
1990	494.7	461.5	3226.1	6.990	3458.2	33.2	232.1
1991	601.9	514.5	3009.2	5.849	3520.4	87.4	511.2

List of Symbols and Notations used in the table:

L.D/BL	Libyan Dinar per Barrel	M.BLs	Millions of barrels
M.L.D	Millions of Libyan Dinars	PO	Average price of oil
QE	Quantity of oil exported	QH	Quantity of oil used at home
QT	Total quantity of oil produced	VE	Value of oil exported
VT	Total value of oil produced	VH	Value of oil used at home

Sours: National Corporation for Information and Documentation, Statistical Yearbooks (Tripoli: NCID, 1995- 98), and from earlier issues of the same yearbooks.
-Ministry of planning, Department of National Accounts, National Accounts, Libya (various issues).
-Central bank of Libya, Economic Bulletin, (various issues).

The figures for Libyan oil production indicate the success that the Libyan authorities achieved in maintaining this key sector. However, Libya was producing and exporting more oil at the beginning of the1990s than it had been in the 1980s see (Table 5.5). The major changes in Libyan oil production were caused by variation in the OPEC quota, not by production difficulties on the Libyan side. In March 1983, OPEC set a production limit for Libya at 1.1 million barrels per day, which remained in force for most of the period through to the beginning of 1990s, when it was raised to 1.39 million barrels per day (EIU, 1998-99:25-26). Despite the success of Libyan state in maintaining production and exports, oil revenues declined. This was, however, due to global developments in the oil market. The oil price fell in the early 1990s and did not recover fully until 1997.

The OPEC meeting in July 1990 (held shortly before the Iraqi occupation of Kuwait, which brought considerable turbulence to the oil market) set the reference price for oil at $21 per barrel but by June 1993 this had dropped to less than $18 per barrel. Libya would therefore have received lower revenues from its oil exports than it had received at the beginning of the decade. The general development plan for the years 1980s-1990s was dropped although it took some years before the full implications of the new low revenue situation were appreciated. However, the General Secretary of Council of General Planning stated that:

> "The most important dimensions affecting the Libyan economy are the human and natural resources. In terms of natural resources, oil was and is still the most important sector of Libyan economy since it was discovered and exported in the mid-1960's. Although the aim of the earlier development plans was to diversify the economy and discover an equilibrium base for it, the domination of the oil is still effective. It is true that the contribution of the oil sector has recessed to 30% (it was 70%) of the national economy. However, the oil effect is still more than its reality, which is, in fact, 30% only. The oil remains represents the major origin of hard currency (95%). It is not worse to have one dominant source but the difficulty is the nature of the source and its revenue is not under our control. Its prise, on the international market, or the quantity to be sold is also not our decision alone. Additionally, the oil needs large investment to be exploited. It seems also that the increase of rate of production prise is now more the rate increase in revenues".

5.10 The Long-Term Implications

One of the crucial questions that needs to be answered in terms of the implementation of the 1988 reforms is related to their impact on the relative role of state and private enterprise in the Libyan economy. It is obvious that the scope of economic reform policies in terms of expanding the role of the private sector remained extremely limited.

First of all, the1988 reforms were confined to light industries and trade and services sectors. As was the case in previous policies, heavy industry and, crucially, the oil sector, which constitutes the mainstay of Libyan economy, were not affected by these reforms. In other words, all the important sectors, the "commanding heights of the economy", remained under the effective control of the state. As a prime earner of Libya's revenue, management of the oil sector "has always been similar to that of companies in Western Countries. The sector has its own marketing companies and purchasing agencies, which import all necessary spare parts, machinery and chemicals, and being run by a professional, profit-oriented management (EIU, 1988, (3):10), (13).

Even in the light industry and trade and service sectors no capitalist-style companies were allowed. The Tashrukiyat (self-managemnt) system did not allow individual ownership. Furthermore, private property rights were not clearly defined and no guarantees for private property were given. Finally, the state maintained most of its controls on prices and no interest and exchange rates; all important institutions that are necessary for the functioning of the market.

The importance of " [t] he quality and the depth of the state technical, administrative, data gathering" in terms of the implementation of the reforms is generally emphasised in the literature (Callaghy,1992 :265). Libya as a rentier state in general lacks these capacities. The technocratic staff, mostly trained in the oil sector, is not large and generally out-numbered by the political appointees. In addition, the ruling elite, mainly to maintain its control, adopted a technique of changing senior positions at short and irregular intervals. This kind of 'political disruption and interference' created 'a survival ethic' among the state officials (Palmer and EL Fathaly, 1982), and impaired efficiency and the capacities that were necessary to successfully implement policies. Despite its shortcomings this "continuous uprooting of domestic bureaucratic organisation in many ways reflects the distrust felt by the Libyan leader for a modern state with its specific political, economic, and social organisation" (Vandewalle, 1987:167).

However, the relationship between the state and the market was clearly transformed to some extent during this period. After the reforms, the state's hold on the economy began to loosen. The Libyan state, for the first time since the beginning of the Jamahiriya system, provided some encouragement to private enterprise and allowed it to function in certain areas.

From 1987 to 1990 the economic situation in Libya slowly recovered. As Table (5.5) shows the GDP grew from LD 6.69 billion in 1988 to LD 7.15 billion in 1989 and to LD 7.82 billion in 1990. The current account deficit of 1.82 billion dollars turned into a surplus of 2.20 billion in 1990. However, the balance of payments deficit of two billion dollars was reduced to 940 million dollars in 1989 and turned into a surplus of 2.23 billion dollars in 1990.

Although there are no figures available it is safe to argue that the cease-fire in Chad most likely contributed to the recovery of the balance of payments by making it possible to make cuts in the military expenditure. By the same token, it can also be argued that economic reforms that aimed to decrease state spending also helped.

Yet, the most important help for the Libyan economy came from oil revenues (Table 6.6). In 1989 oil prices increased, in part as a result of series of accidents that disrupted the North Sea oil supplies, and in part because of the renewed demand in the U.S. 1990 saw a more important recovery in the economy as a result of windfall oil earnings prompted by the outbreak of the Gulf crisis in August.

Table 5.6: State Oil Revenues, Total revenues, Expenditure and Foreign Assets (M.L.D)

Year	RT	RO	RZ	GEX	DEF	NFA
1980	7435.4	5951.1	1484.3	2899.7	1415.4	4068.0
1981	3787.4	2872.8	914.6	3922.8	3008.2	3132.1
1982	3277.1	2440.1	837.0	3620.9	2783.9	2358.8
1983	3448.1	2520.0	928.1	3663.9	2735.8	1704.1
1984	3090.2	2125.0	965.2	3480.0	2514.8	1284.8
1985	2798.6	1846.0	952.6	2705.4	1752.8	1978.5
1986	1994.0	1074.0	920.0	2414.0	1494.0	2061.2
1987	1964.5	1029.7	934.8	2068.0	1133.2	1721.2
1988	2029.8	898.0	1131.8	1970.3	838.5	1289.5
1989	2382.9	1181.5	1201.4	1930.9	729.5	1310.0
1990	2860.0	1600.0	1260.0	2590.0	1330.0	1681.3
1991	2655.0	1435.0	1220.0	2122.5	902.5	1637.9

List of Symbols and Notations used in the table:

DEF	Budget deficit: DEF= GEX-RZ	GEX	State total expenditure
MLD	Million of Libyan Dinars	NFA	Net foreign assets (foreign asset reserves)
RT	Total revenue	RO	State oil revenues
RZ	State non-oil revenues		

Sours: National Corporation for Information and Documentation, Statistical Yearbooks (Tripoli: NCID, 1995-98), and from earlier issues of the same yearbooks.
- Ministry of planning, Department of National Accounts, National Accounts, Libya (various issues).
- Central bank of Libya, Economic Bulletin, (various issues).

However, during this period "1980s" there appeared new constraints on the budget as a consequence of the reform policies. One of these resulted from the rising imports of food and consumer goods (Table 5.7) and the relaxing of travel restrictions, moreover, the state made several commitments to expand the production of oil sector. And finally, the increase in the migrant labour force once again created a strain for the budget. In the meantime, GMR was already consuming one third of Libya's oil revenues and imposing negative effects on the balance of payments which were avoided by drawing on the foreign exchange reserves. In fact, although the balance of payments deficit decreased in 1989, the reserves fell from an estimated 5.2 billion dollars at the end of 1987 to four billion dollars in April 1989 (EIU, 1989 (3): 9-10).

Table 5.7: Libyan Economy in 1987-1990: Main Indicators

	1987	1988	1989	1990
GDP (LD. billion)	6.78	6.69	7.15	7.82
Reserves Excluding Gold ($ billion)	5.84	4.82	4.33	5.84
Imports (fob) ($ billion)	5.40	5.75	6.52	7.58
Exports (fob) ($ billion)	5.83	5.64	7.28	11.36
Exports of Services	1.14	1.28	1.18	1.17
Import of Services	- 1,43	-1,63	-1,48	-1,38
Current Account ($ billion)	-1,10	-1,82	-1,03	2.20

Source: IMF, International Financial Statistics, 1992.

Which group gained and which lost from the implementation of economic reforms? Consumers seemed to be an important group that benefited. As a result of reform policies the scarcities ended and the lines disappeared. "The flow of imports, resumed after a long period of shortage, built support for the new policies. The freedom to travel and the curbing of some of the powers of the revolutionary committees were also highly welcomed. In fact, immediately after the reforms the popularity of the state in general, and the Libyan leader in particular soared" (EIU, 1988 '3': 3).

Yet, with the passing of time things became more complicated. The free trade activity and the cutting of state subsidies resulted in spiralling prices which were certainly not appreciated by Libyans whose income in many cases remained the same (for more examples see footnote in Vandewalle, 1991:229). Moreover, in a country where 70 percent of the working population works for the state, the measures taken to streamline the state sector created increasing fear and discontent.

The real winners of the reform policies were the merchants who could now open their private shops, and the businessman, who could get import and export licenses from the state. The Libyans who entered into Tashrukiyat (self-management) in the medium-and light- industries, on the other hand, seemed to be doing not as well since the General People's Committee of Industry (Ministry) report published in 1990 stated that the production problems in Tashrukiyat continued.

This could be predicted since to overcome the problems of these industries and turn them into profit-making enterprises is a much more complicated job than to profit from private retail trade. Most of these enterprises had structural problems and were losing money to begin with. The Tashrukiyat system could not really sort those problems out since the system was not clearly defined and the institutional mechanisms, such as credit markets, to make up the replacement of the suddenly disappeared heavy state subsidies were lacking. In this respect, the director of chamber of commerce in Benghazi said:

> "Private companies have not succeeded to achieve their appropriate role for the following reasons:
>
> 1. The state is not ready to depend on the economic individual units, partnerships or the private companies "*Tashrukiya*", because the officials got used to the state owned organisations and companies of large size, which are

under their supervision and power. It was easy to deal with limited number of organisations; for example, Secretary "Ministry" of Industry or Secretary of Commerce, for a long time, were dealing with very limited manufactories and companies, which could be controlled easily. It was found difficult to collect individuals and partnerships to meetings because of the large numbers and there was a difficulty to control these private associations.

2. This situation reflected that the difficulty is because of the complication of the procedures of the formation and establishment of these organisations and individual activities. Also, these private firms and many economic individual activities cannot get easily commercial facilities which support and guarantee the success of privatised firms.
3. Also, it is important not to forget the unstable condition of the commercial banks when dealing with the privatised firms and what will happen to the facilities, which are given to the public institutions and settled yet. These public companies started to deteriorate in the market giving way to the new system. Therefore, the commercial banks have not succeeded to crystallize the banking policies, with which they can deal, and the guarantees to be required.
4. The *sharika musahima* "joint stock-companies" have not started their work yet in spite of it completion of the establishment procedures. They are waiting for banks facilities and also waiting for central bank documents to run, until now nothing achieved.
5. There are extraordinary behaviours followed by these privatised companies "*Tashrukiyat*"; most of these companies have given banking facilities, which have been misused and reflected on the type of import and showed negative contracts. There are many complaints from the Libyan importers; some of them have not received their complete commodities or with different specification and others have not found the right contract to decide the prizes and specifications. In spite of our efforts in the chamber in Benghazi to reduce these problems, there are many either do not reply to the chamber or trying to get rid of the endorsement and even put some pressure to raise a case that the chamber delays their work".

Furthermore, Vandewalle (1998:153) argues, "in reality, as subsequent years showed very little was accomplished. Many of the new laws were stillborn, or unimplemented, the country's bureaucracies were left untouched. The Tashrukiya enterprises were never subject to administrative scrutiny, and the legal texts never made clear who should supervise them".

Much of the political opposition to the reforms was generated within the state apparatus. Some of it was due to genuine ideological objections. Despite Col. Qathufi's attempts to present them as a continuation, or even a true implementation, of the "Green Revolution" (14), many within the state apparatus saw the reforms as directly threatening to the key tenets of Qathufi's political philosophy as laid down in the Green Book. On the other hand, some were concerned about losing their privileged position in Libyan society. Possibly there were a few bureaucrats, such as the ones that give out the import licences, who gained from the new policies, yet most of them faced the possibility of losing their jobs or power.

The case of the revolutionary committees was especially crucial. No doubt they were not pleased about the meaning of the new changes for the revolution. As a result of the political reforms, they also lost some of their power. In this context, Vandewalle (1998:155) pointed out that "the failure of Libya's *infitah* (Liberalisation) dramatically illustrates the challenges distributive states face when implementing broad economic reforms that are meant to reduce the unique and highly peculiar position the state occupies. Even if rulers prove willing to implement reforms when facing sever fiscal crises, they face more profound obstacles that are related to the nature of economic institutions in distributive states and that are linked to intertwined economic and political objectives those institutions pursue during boom periods. Ultimately, these obstacles are the outcome of structural and institutional weaknesses that emerge from the state-building process within distributive states".

By 1989, therefore, it was clear that the number of "losers" far exceeded the 'gainers'. The literature on the political economy of reform generally supports the argument that the 'losers' in a reform program immediately became active opponents, whereas the 'gainers' do not provide support for the programme in its initial phases (Bates and Krueger, 1993).

This was true for Libya, it was especially difficult for merchants and businessmen to be actively mobilized and collectively articulate their interests in a country which, more then a decade ago, abolished all kinds of private enterprises. The groups that were against most of the reforms, however, were coherent; more organised and had formal and informal lines of influence to the top leadership and middle level officials.

Furthermore, the discontent about the reform programme surfaced at the GPC meeting in 1989. A delegate made a complaint, addressed to the Libyan leader, about the proportions that private trading had reached: "The unidentified man said the number of people who left production work to become traders was too huge that in a year or two Libya would turn into a nation of merchants and consumers with nobody left in the production sector. He also commented that a ten kilometre stretch of the main Tripoli road is now lined with stalls where hundreds of private sellers are offering all kinds of goods at five times the normal price" (EIU, 1989 (2): 11). During the meeting there was a General People's Committee reshuffle which was generally regarded as a victory for hard-liners.

The relaxation of controls had indeed unleashed corruption and the perpetrators were less frightened of being caught. Despite some liberalisation, because of the fact that the price controls mostly remained intact, the black market in goods and currency (with Libyan dinar three times overvalued) was thriving (Financial Times, 1 September 1989). Another unplanned consequence of the reform policies was a rise in property and land speculation. Some of the excess liquidity in the financial system was also being absorbed by this increasingly active informal market in property and land, despite the fact that the restrictions introduced in the late 1970s, whereby each family may own only one residence, remained (Africa Confidential, 21 December, 1990:11).

It was not a surprise that in a state, which promoted equality, redistribution, and an extensive economic role for the state, many discovered these practices unacceptable. The opposition to reform was more prevalent in the GPC meeting in 1990. Most of the delegates demanded more spending on state-owned industries, asked the government to subsides goods and food; to save jobs; to provide cheaper loans; and to give as many people as possible access to imports. It was interesting that the only aspect of economic reform policies that gained widespread support was imports. Despite the pleas for realism from the Libyan leader a majority of delegates opted for state intervention and only a marginal role for the private sector.

The Libyan leader and several secretaries were in agreement with those critical delegates in their dislike of some the aspects of the flourishing market in Libya. Yet, contrary to the delegates, the state's number one priority was to cut state spending and demands from the Congress to the contrary were not welcomed. Aside from that, the Libyan leader and a number of secretaries joined the delegates in their attack against what they called "brokering" (The Reuter Library report, 7 March, 1990). In a speech to the congress the Libyan leader depicted demands for a market economy as a "colonial programme" which he declared, was bound to collapse. He said:

> "Whoever wants prices to go up, salaries to go up, inflation to rise, borrowing from the I.M.F to start, begging from foreign countries to start, be exploitation to begin, and dignity and freedom to humiliated, wants colonialism to return, takes us away from production and directs us toward consumption" (AL-Sijlll A-Qawmi "National Register", 1991).

At the end of the Congress the GPC adopted a "revolutionary programme". A resolution stated the "the necessity to transform society into one of production by destroying the consumer society and building a "*Jamahiri* production society".

Despite this rhetoric, the opposition did not succeed in reversing any of the reform policies. On the contrary, even the "excessive consumerism" that most of the participants in the GPC meeting complained about and vowed to battle, continued to flourish. A journalist visiting Benghazi in June 1991, for example, described shops offering "Coca-cola, Fanta, made under U.S. license in Egypt, Tunisian shampoo and such Western staples as Nescafe and Nivea cream", "English chocolate"," Cypriot biscuits" (The Reuter Library Report, 14 June, 1991). On the other hand, some articles in the newspapers continued condemning consumerism as unseemly in the Great Socialist People's Libyan Arab Jamahiriya (15) (op. cit). It was noted that while the opposition was so were mounting the reform, the struggles about what course Libya should take were still containing in 1991. The reforms would enter into another stage, however, with the adoption of the privatisation law in 1992. All these proceedings would be argued in the subsequent chapter.

End Notes

(1) Due to the oil price collapse only about 60 percent of the 1981-1985 development plan was implemented. Since 1985 The General People's Secretary (Government) has not prepared a development plan.

(2) **Industrial Establishments in Libya 1976-1986**

	Heavy		Light	
Industry	**Completed**	**in Process**	**Completed**	**In Process**
Food industries	52	8	26	54
Textile industries	16	1	34	271
Petrochemical and chemical	24	3	13	21
Construction Materials	23	2	9	19
Metal and Engineering	18	6	10	22
Total	140	21	95	159

Source: Secretariat of Industry (1987).

(3) Notably the one billion dollar fertilizer at Sirte City and the 150 million dollar oil port to serve the offshore Bouri oil field.

(4) Almost all trade within Libya was state-controlled, with national purchasing agencies responsible for pricing and distributing imported and home-produced goods. However, farmers enjoyed a special position. In farming to survive alongside with the state farming. The private farmers were able to market their own produce, provided they, or members of their family, were directly responsible for such sales.

(5) As of 1993 Libya has six domestic refineries: Ras Lanuf petrochemical complex, with its 220,000 b/d capacity, is the largest. The others are at Zawiya (120,000 b/d), Sebha (20,000 b/d), Marsa el Brega (10,000 b/d), Sarir (10,000 b/d) and Tobruk (20,000 b/d).

(6) "In the past, Libya acquired foreign refining and marketing assets on an ad hoc basis, as and when opportunity arose. The new company, however, intends to pursue a far more concerted purchasing programme" (The Middle East, December, 1988:34).

(7) The Libyan leader called for the abolition of capital punishment, but his proposal was rejected twice by the G.P.C.

(8) Namely the Gambia, Gabon, Ivory Coast, Kenya, Liberia, Mauritius, Zaire.

(9) Iraq had severed diplomatic relations with Libya in June 1985 after signing of a "strategic alliance" between Iran and Libya.

(10) The position of the West German government, for example, was that the federal government would envisage action of this kind only within the framework of a coordinated European Community policy. See Guardian, 4 January 1986. In 3rd January 1986. "The West German ruled out economic sanctions against Libya saying they were "not a suitable instrument", in the fight against international terrorism. West Germany refused to participate in a US plan to impose sensations against Libya because there were 1,500 German expatriates living in Libya" (See Ouaguena, 1991:249-250). The European Council of Ministers than rejected collective EC sanctions. Guardian, 9 January 1986. The critical need on the part of the United States to bring Europe into the sanctions state against Libya is indicated by the 1985 trade and revenue statistics for Libya: 90 percent of export earning were from sales of crude oil, and 80 percent of that oil went to Western Europe.

(11) The causal relation between reforms and the performance of the economy is ambiguous. For that reason the definition of "implementation" that is given in Nelson (1990) is adopted in this study. According to Nelson (1990:16) implementation is " the degree to the measures taken". However, this study also speculates on the economic outcomes of the reform as far as it is possible, since I believe that this is only fair as in

analysis of earlier policies most of the studies on the subject, including Nelson's edited volume, discusses the economic outcomes of the earlier policies in most cases as a justification for reform.

(12) The profit margins were considerable: "in early July a 50 kilogram sack of sugar cost 40 dollars for the Tunisian consumer and only 15 dollars for the Libyan" (EIU, 1988 (3): 7).

(13) In addition to the oil sector and heavy industry, the armed forces and the banking sector was also excluded from the influence of the popular committees. There were five commercial banks in Libya. In order of size, they were the National Commercial Bank, the Jamahirya Bank, the Wahda Bank, the Umma Bank and the Sahara Bank.

(14) The Libyan leader justified the Libyan reform in a curious way by claiming in a speech on September 1, 1989 at the celebration of the 20th anniversary of the Libyan revolution ,"that Perestroika in the U.S.S.R was the implementation of Third Universal Theory enshrined in his Green Book and expressed his profound belief that the whole world would become a Jamahiri place" (EIU, 1989, (4):5)

(15) An article appeared in May 1991, for instance, headlined "Fancy villas with satellite dishes: Time for the bulldozer".

Chapter Six The Second Stage of The Economic Reform Programme

6.1 Introduction

The early 1990s were difficult times for Libya. The imposition and later tightening of the U.N. sanctions and the volatile world oil market put clear constraints on the choices of the Libyan state. Under these difficult circumstances, the economic reform programme entered into a new stage. The most important characteristic of this period was the endeavour by the Libyan state to create a legal environment for the functioning of the private sector.

This chapter starts with the discussion of Libya's place in "The New World Order" that started to be shaped in the early 1990s. It goes on to explain the changes that took place in the world oil market and the effects of these changes on Libya. After that there is an argument of the economic reform policies that were adopted during this period: first, attempts for reducing the role of the state in the Libyan economy are explained. Then, the policies that were adopted to privatise parts of the Libyan economy are discussed.

6.2 Libya Within The New World Order

The dynamics of international relations under the New World Order, in fact, have not only enabled sanctions to be imposed but also shaped the character, content and sustainability of sanctions. Events in the Arab world, moreover, carry particular relevance to conceptions of the New World Order: much of the early debate on the New World Order was engendered by international reaction to Iraq's occupation of Kuwait in August 1990. There is good reason, therefore, to be attentive to the links between the New World Order and U.N sanctions. Waller (1999) argues:

> "The New World Order, pronounced by Western leaders in 1989, was projected by those same leaders as bringing into being a more stable and peaceful international order, one built on democratic values and the free market economy. The bitter antagonism between East and West, the nuclear conformation, and rivalry for strategic pre-eminence and ideological hegemony would all be left behind. In its place the Western powers would be able to work through the United Nations to create a world order reflecting democratic values and a deeper respect for human rights, wherein attempts to disrupt the new international harmony would be met by collective action channelled through international organisations. The world was seeing the victory of liberal democracy; beyond that there would be no further political system that could evolve. Wherever liberal democracy was not yet established, it would be within the foreseeable future. There was, ultimately, no alternative system that could challenge it".

Although some of the optimism pervading Western governments circles during the beginning of the 1990s may have diminished-replaced by a more realistic appreciation of the continuing problems in managing the world order-in some respects the earlier projections and hops of Western governments have been realised. First, the threat of global war no longer dominates the consciousness of most Western publics. With the disintegration of the Soviet Union and the communists bloc, the continued holding of nuclear weapons by states of the former Soviet Union is no longer viewed with significant alarm.

Second, there has been a well-documented advance toward a global economic market. The 1990s saw the transformation to free market economies in the former Soviet Union and a worldwide trend toward economic liberalisation, both of which have opened commercial and financial markets to greater competition, in addition, the strengthening of global regulatory mechanisms that underpin and facilitate global trading (Simons,2003).

According to Waller (1999:257) "trenchant forces were rippling through the global system in the late 1980s, forces that were far more formidable than any single leader. Theses forces ushered in a new World Order—an order marked by the end of the Cold war, the collapse of the Soviet Union, and the Western victory in the Gulf War. Freed from the shackles of bi-polar conflict, the G-7 powers--- led by the United States---were suddenly able to use international institutions to unprecedented effect, bringing diplomatic, economic and occasionally military pressure to bear against recalcitrant states they deemed threats to international peace security. For these so-called 'rogue states' the pre-eminent security challenge of the day was to prevent this new order from subjecting them to containment, encroaching upon their sovereignty, and even in some instances from replacing their states".

The U.S. government's perception that Libya was disruptive to U.S. interests and the stability of U.S. allies was accurate between 1981 and 1986. At this time Libya was intent on countering U.S. influence and positions and was prepared to use conventional diplomatic instruments (such as its substantial financial resources) in order to confront the United States and its allies. The confrontation was thus willed by both sides: the United States was eager to strike at a state that was undermining its influence, and the Libyan state was eager to confront the growing U.S. involvement and military presence in the Middle East (See, e.g. reports of a press conference given by the Libyan leader on 31 December 1985, Washington Post, 1 January 1986). The Libyan leader anxiety became particularly acute after events such as the U.S. invasion of Panama, the Libyan leader said:

> "....a serious precedent in international relations at a time when the world is witnessing transformations and changes in the balances of power, which consolidate tendencies towards aggression rather than provide opportunities for repelling them" (Al-Sijlll a-Qammi "National Register" 1992).

6.2.1 Lockerbie Crisis and The U.N. Sanctions

On November 14th, 1991 U.S. and U.K. investigators charged two Libyan nationals for their alleged involvement in the 1988 Pan Am airplane crash over Lockerbie in Scotland. Two weeks later they demanded that Tripoli accept responsibility for the incident, extradite the two, and pay compensation. Earlier in October a French judge had issued international arrest warrants on murder charges for four Libyan intelligence officers in connection with investigations into the bombing of a UTA aircraft over the Sahara in September 1989 (1).

Theses developments represented an escalation of conflict especially between the U.S. and Libya. U.S. had resolutely continued its campaign against the Libyan state before the Lockerbie affair by renewing economic sanctions by blacklisting several firms accused of trying to sidestep economic sanctions against Libya, and by accusing Libya of expanding its chemical weapons programme and dispersing chemical stockpiles around the country to avoid detection.

On 21 January 1992, the council passed resolution 731 which strongly deplored "the fact that the Libyan government has not yet responded to the ... requests to cooperate fully in establishing responsibility for the terrorist acts...against Pan Am flight 103 and UTA flight 772 and urged the Libyan state immediately to provide a full and effective response to those requests so as to contribute to the elimination of international terrorism. The U.N. Secretary-General was also asked to seek the cooperation of the Libyan government to provide a full and effective response" (United Nations, S/RES/731,21 January 1992). The Libyan representative to United Nations held direct talks with the UN Secretary General, and there was some further development in the Libyan position.

The core of the case that the Libyan leader advanced was the lack of trust between Libya and the United States made it inappropriate to try the case in the United States or Britain, the closest U.S ally. If there was a general improvement in the relationship between the United States and Libya, he intimated, handing over the two suspects might be possible. There was no objection to handing over the suspects to France, if so requested.

The Libyan leader also promised his cooperation in putting an end to terrorist activities and gave an assurance that Libya would sever its relations with all groups and organisations that targeted innocent civilians and "Libya invited Security Council to verify that there were no terrorist training camps in Libya" (EIU, 1993/94:10). Although it was premature to discuss the question of compensation, which could only result from a civil court decision, Libya would guarantee the payment of compensation awarded as a result of actions for which its citizens were responsible, if they were themselves unable to pay it.

Despite the efforts of Libya and of the Arab League, the Security Council proceeded, on 31 March 1992, to pass a resolution enabling international sanctions to be imposed on Libya. Resolution 748 instructed members of the United Nations to impose a series of measures against Libya beginning 15 April (United Nations, S/RES/748, 31 March 1992). The measures were mandatory, as the resolution was passed under Chapter 7 of the U.N Charter; they were to remain in force until the Libyan government had complied with requests to cooperate fully in establishing responsibility for terrorist acts against Pan Am Flight 103 and UTA flight 772.

U.N members were required to cut air links with Libya, except those based on humanitarian needs; to prohibit the supply of parts or servicing to Libyan aircraft; to prohibit the provision of arms-related material, advice, or assistance; to significantly reduce the level of Libyan diplomatic representation in their countries; to prevent the operation of all Libyan Arab Airlines offices; and to deny entry to or expel Libyan nationals suspected of involvement in terrorist activities. A committee of the Security Council was established to oversee the implementation and operation of the sanctions (Simons, 2003).

It is important to note that the resolution placed no restrictions on the sale of Libyan oil. Any such move would have met with opposition from those European countries that were most dependent on imports of Libyan oil-Italy, Germany, and Spain. "It was noted that in the absence of any change in the Libyan position during 1992 and 1993, the United States, Britain, and France sponsored a new resolution tightening the sanctions on Libya at the end of 1993. Security Council Resolution 883, passed on 11 November, provided for the freezing of Libyan financial assets abroad and banned the export to Libya of selected equipment for downstream operations in the hydrocarbon sector" (2). (United Nation, S/RES/883, 11 November 1993).

In addition, the frozen financial assets excluded funds that were derived from the sale of oil, gas, petroleum, and agricultural products, therefore, Libya was still able to export its oil without restriction. Nonetheless, the ban on "selected equipment for downstream operations" raised the possibility that Libya might encounter difficulty in maintaining the level of its oil exports: the ban covered all equipment that was needed for the extraction of oil and its transport to the exporting terminals (op, cit).

When tensions increased it became obvious that Qathufi was especially worried about U.S. military intervention. In an attempt to defuse such tensions he said in an interview with the Egyptian newspaper *Al-Ahram* that Libya had "no desire to antagonise America, and America can not be proud of antagonising a small state Like Libya by attacking it" (Al-Ahram, 7 December 1991).

During the Gulf war Libya acted with restraint and pursued a policy of neutrality. "While being concerned with the plight of the Iraqi people, the Libyna leader insisted on "a complete Iraqi withdrawal from Kuwait and the return of its legitimate government. Libya also hoped that the new administration in Washington would re-evaluate its relations with Libya. In fact, both Libyan leader and Jalloud made several conciliatory speeches towards the Clinton administration" (See for instance FBIS-NES, 17 November 1992:32-33).

The Libyan leader also made a series of overtures to the Jewish world and tried to use Israel as a back channel to the U.S. administration: In an interview with the Western Journalists he invited all Libyan Jews, who were forced to leave the country after the 1967 Arab-Israeli War, back to Libya not only to visit but also to live and declared that he would implement a 1970 law providing compensation to Italians and Jews who left property behind. He also announced that Libya would soon host a conference in Tripoli for representatives of the three major monotheistic religions that would be extended also to Jews coming from Israel. And, finally, the Libyan leader said that he would permit some 200 Libyans to make a pilgrimage to Muslim holy sites in Jerusalem. The pilgrimage realised in June 1993 when 192 Libyans visited Israel (International Herald Tribune, 16 April, 1993).

The concessions by Libya failed to prevent further measures by the U.N. on November 11, 1993 the U.N. Security Council voted by 11 to Zero to tighten the sanctions against Libya (3), therefore, The Security Council passed Resolution 833, imposing additional sanctions upon Libya for its non-compliance with the Council's previous resolutions.

This resolution targeted three key areas: (1) the freezing of all Libyan funds and resources abroad. The resolution also stated that revenues accrued from the sale of hydrocarbons and agricultural products were to be paid into specific accounts; (2) a ban on exports to Libya of selected items of equipment for the downstream oil and gas sectors; (3) further restrictions on Libyan aviation industry, including: the closure of all Libyan Arab Airlines offices overseas; a ban on the sale of engineering, equipment sales and maintenance services for use in aircraft and air fields; and an embargo on renewing direct insurance for Libyan aircraft.

It could also be argued that when the Lockerbie investigation drew to a close, the Libyan leader did seem to realise that in the new international environment, terrorism was a less useful policy instrument than it had seemed during the 1970s and 1980s, he said:

> " The entire world detests terrorism; this is true you may call it what you like: whether bravery or whatever, we do not care; to hell; but today the issue of terrorism is a detested yourself from this stand. Consequently, no one should place himself in the dock in this issue" (Al-Sijlll a-Qammi "National Register, 1991).

According to Waller (1999: 29) “Qathufi tried to show the West that he could actually be an asset in fight against it. Here, Libyan leader said, “Libya and the West shared a convergence of interests”. However, the Libyan news agency announced on 14 May that Libya was prepared to take three steps to comply with U.N. Resolution 748: (1) cut all ties with organisations involved in international terrorism; (2) deny the use of its territory for terrorist acts and punish severely anyone involved in such acts; and (3) invite UN representatives to see that there were no training camps in Libya”.

6.2.2 The Effects of the Sanctions

The immediate impact of the U.N sanctions were minimised by the fact that Libya was given ample time to prepare for them. Before the tightening of the sanctions in 1993 the Libyan government started an intense stockpiling of large quantities of equipment and in doing so postponed the negative effects of the ban on equipment.

State deposits were also either transferred from some European banks into safer locations in Bahrain, Cyprus, Egypt, Morocco, Switzerland, or turned into cash and brought to Libya for fear Libyan assets being frozen (Table 6.1) finally, Oilinvest (4) restructured its European assets, handing over majority share holdings to former minority shareholders, including the Italian Armani, Montanari and Triboldi groups and a German businessman, Jorn Eggert (MEED, 26 November 1993:6). Nevertheless, by 1994 the cumulative effects of years of U.S. embargo and the imposition of the U.N. sanctions started to be felt in the economy.

Table 6.1: International Liquidity (Total Reserves minus Gold)

1986	5,953
1987	5,838
1988	4,322
1989	4,333
1990	5,839
1991	5,695
1992	6,182
1993	5,972

Source: IMF International Financial Statistics, April 1993: 336-37.

6.2.2.1 The Effects of the Sanctions on the Oil Industrial Base

The impact on the oil industry was especially crucial as that industry constituted the backbone of the Libyan economy. Sine the imposition of the U.S. embargo in 1986 Libya has been denied the industry's most technological expertise and equipment, and the knowledge and experience of the U.S. oil companies that established the industry. The fact that most the Libyan oil production is still concentrated on fields developed in the 1960's made Libya more vulnerable. To maintain production at these fields, water and gas re-injection is a prerequisite and, while Libya has an advanced oil recovery programme, it is generally accepted that it is not a substitute for U.S. technological know-how (The Middle East, October 1991: 41).

Since the tightening of the sanctions in 1993, the oil industry sources started to argue that Libya has been finding it hard to maintain production levels and wells were in bad condition because of the lack of U.S. technology (The Reuter Library Report, 16 August, 1993; Katzman, 2003).

Another way for Libya to diminish the impact of the sanctions is to open up new production sites. This is something Libya should be conducting anyway in order to prolong the number of years the country will receive adequate oil revenues. Although it is an appealing location in terms of possibilities for future oil discoveries, U.S. policies towards Libya have been determining factor in scaring away some oil companies (5).

After the withdrawal of the U.S. companies and in accordance with its efforts to cope with the economic crisis in the late 1980's Libya started a new round of exploration and production sharing agreements (EPSAs), which resulted in the signing of eleven agreements. However, most of the companies that signed EPSA accords were small, independent and had limited exploration portfolios (6). Due to these reasons after the imposition of the U.S. embargo Libya did not nationalise the assets of the U.S. oil companies and periodically continued contacts with them to resolve the issue.

The latest attempt was made in October 1991. The talks started between Libya's NOC and the Oasis group when Libya dropped some of its pervious key conditions, including the requirement that the companies act as full joint-venture partners, market Libyan crude in the U.S., and supply U.S. technology and equipment. The companies had indicated that they would resume their participation in ventures involving third country partners, which might enable them to overcome U.S. domestic political problems. The talks failed as Libya was determined that they return as U.S. entities or not at all (IBC International Country Risk Guide, March 1992).

A clear sign that the Libyan oil industry was suffering from the sanctions came during the summer of 1993 when Libya opened prolonged oil negotiations with Italy. At the end

Tripoli agreed to allow Italy's A.G.I.P. oil company to increase its stake in the important offshore *Bouri* and onshore *Attifel* fields from around 19 percent to 30 percent. This marked the first time, since Qathufi came to power in 1969 and began policy of increasing the Libyan stake in the country's oil fields that the Libyan authorities have agreed to such a significant dilution of their stake in such major fields (Inter Press service, 27 October 1993).

Impositions of sanctions also harmed the industrial projects and impeded contracts with international companies. Especially during the periods right before the imposition, and later tightening, of the sanctions plans for those projects were frozen as the income from oil production was used to stock up essential goods. The Libya general Bank recommended that the government not enter into new contracts and to limit imports to the necessary goods such as food, medicine, spare parts and raw materials needed by the industry (The Reuter Business Report, 6 May 1992).

Even more than the sanctions themselves, the uncertainty created by them had a major impact on the economy. Among the local and international business circles there were doubts about what the future held (for more details, see Niblock, 2001: 82-90). There was also confusion among the suppliers and contractors especially after the 1993 sanctions. Freeze of Libyan assets required a reorganisation of the payment system and that took some time (7). Moreover, sometimes "both local clients and European government departments [appeared] to be at loss as to how to interpret the directives drawn up by the U.N." (MEED, 28 January 1994: 4). In more general terms the sanctions resulted in the weakening of the currency, the increasing cost of living, and the cutting of subsidies by the state.

Currency depreciation was visible on the black market where the Libyan dinar plunged to an all-time low because of both the uncertainty about how long the U.N. sanctions would remain in place and also the sharp increase in demand for travelling abroad (8).

At a meeting of the African Ministerial Council of the OAU Libyan delegate presented a report on the consequences of the implementation of the U.N embargo. The report said the damage the sanctions inflicted on the Libyan economy amounted to 2,400 million dollars and that losses in agriculture constituted 40 percent of that figure because Libya could not export its agricultural production. The report added that the sanctions had also affected livestock resources in Libya because veterinary supplies, which were imported from Europe, had stopped. Furthermore, it was claimed that the aviation sector lost over 361 million dollars. Finally, according to the report, other technical problems resulting from the sanctions were the lack of maintenance work and depletion of spare parts (BBS, Part 4: ME/1725/A; Katzman,2003).

The impact of the sanctions started to hurt Libyan economy. Even before the tightening of the sanctions, major Jallod, summed it up "Let's admit, we have been exhausted". In addition to the economic impact, the Lockerbie affair had serious psychological effects on Libya. It increased the sense of isolation from the international community. (Table 6.2) for example shows the value of the losses caused by the sanctions from 1998-1999.

Table 6.2: The value of the losses caused by the sanctions from 1998-1999

	L.D
Additional costs and medical providing damage	7. 000 000
Additional costs for private abroad treatment	7. 000 000
Additional costs for internal treatment	14. 000 000
Damages in medical tools	9. 000 000
Additional costs for internal ambulance	15. 000 000
Additional costs for air ambulance	9. 000 000
Damages in initial medical care	5. 000 000
Other losses	2. 000 000
Total	545. 000 000

Source: Libyan representative report in Security Council (2000).

Moreover, an official assessment of the economic impact of sanctions on Libya, prepared under the auspices of the Libyan secretariat for foreign liaison at the beginning of 1998, put the cost at about $24 billion (EIU, 2nd Quarter, 1998:14). An Arab League report, prepared in mid-1998 and covering the period up to the end of 1996, put the figure at $23.5 billion.

The main areas of loss, according to the latter report, were the energy sector ($5 billion), the commercial sector ($5.8 billion), the industrial sector ($5.1 billion), the transportation and communications sectors ($2.5 billion), and the agricultural sector ($337 million (EIU, (3), Quarter, 1998:17). Although these may represent accurate estimates of the scale of damage done, they will not be used here to evaluate the economic impact of sanctions. In fact, "the real effects have been more complex and nuanced and cannot be conveyed by simple monetary figures" (Niblock, 2001: 189).

Libya experienced severe inflation over the sanctions period. This stemmed in large part from the indirect effects of sanction, combined with greater dependence on the private sector to import goods. Goods that were subject to sanctions (such as those for the downstream operations of the oil industry) were thus acquired by indirect means, which meant substantial payoffs to third parties. The higher prices for imported goods, however, were not restricted to those banned by sanctions. Without air links to the outside world, and with international business and institutions wary about conducting business with Libya, there was a general upward pressure on prices. Prior to sanctions, some 30 percent of Libyan imports reached the country by air (op.cit: 195) shortages, created by the inability of Libyan authorities to respond quickly to consumer needs, meant that goods soon commanded prices above the levels set by the state.

The impossibility of obtaining by air the spare parts needed for industrial machinery, moreover, led to a decline in the production of key goods for the domestic market and placed further pressure on prices production on food manufacturing and cement, for example, both declined sharply over the four years that followed the imposition of sanctions see (Table 6.3).

Table 6.3 Value of Manufacturing Production in Food and Cement, 1992-1996 (in millions of Dinar)

	1992	1993	1994	1995	1996
Food manufacture	225.6	222.90	124.94	132.36	78.69
Cement and cement products	105.94	102.03	80.93	79.16	67.60

Source: National Corporation for Information and Documentation, Statistical Yearbook, 1998 (Tripoli: NCID, 1999:28).

The capability of the state to control prices was weakened by the liberalisation of the economy, which had occurred in the late 1980s, and, by further measures of liberalisation introduced in the wake of sanctions. The latter stemmed from the government's realisation that merchants and private entrepreneurs could be more adept than the government in supplying consumer needs in light of sanctions. Law No. 9 of 1992, introduced in September, laid the basis for the privatisation of state enterprises engaged in production, distribution, trade, services, agriculture, industry, education, health, commercial tourism, transport, real estate and finance. It allowed for private practices to be established by lawyers, medical doctors, financial and economic consultants, civil engineers, notaries, carpenters, and blacksmiths (op.cit: 97).

In 1993, wholesale trade and retail trade were opened up to the private sector. In practice the major growth that occurred in the private sector was in commerce, with only limited investment in other fields. The shift in the balance between the private and public sectors was nonetheless substantial. The proportion of investment accounted for by the private sector grew from 9.8 percent of total investment between 1986 and 1990 to 24.6 percent between 1991 and 1997.

6.2.3 Changing World, Changing Circumstances: The Collapse of the Soviet Union, The Gulf War, and the Middle East Peace Process

The Gulf War was confusing for the Libyan state. In fact, Qathufi openly stated this confusion when he said that:

> "The aim of the War is not clear. If it were only Iraq being threatened by America, we would all have gone to Baghdad and declared our stand by her...However, now if you are fighting on Iraq's side, it means you are fighting the people of [many Arab countries]. It [also] means that you are saying I am supporting Iraq whether she is right or wrong" (Middle East Contemporary Survey, 1991: 585).

Waller (1999:274) argues, "Saddam Hussein's action, Qathufi realised, would inflate American influence in the Middle East to unprecedented heights, the Libyan leader said:

> " We have given to America an historic opportunity so that it directly brings its forces into the Arabian Peninsula and Gulf... We have given them an irreplaceable opportunity. An opportunity, which they had never expected.

> An opportunity whereby they will come back any time and say: The Arabian Peninsula? No problem" (Al-Sijlll a-Qammi "National Register", 1990).

As a result, during the War Libyan policy was one of neutrality. The effects of the War on Tripoli were extremely significant, however, On the one hand, Libya benefited from the oil boom created by the War. On the other hand, the lessons of the devastation in Iraq seemed to be learned by Tripoli. In a speech the Libyan leader said that they wanted to "draw America's attention to the fact that there is a difference between Lockerbie and Iraq" (FBIS-NES, 9 September 1993:31). He was also uncomfortable with the attitude of Russia towards the Gulf conflict. His disappointment was clear when he asked "[W]hy did the Soviet Union not say it was impermissible to crush Iraq and annihilate it once she left Kuwait, despite the fact that there is a treaty of friendship and cooperation" between Moscow and Baghdad? (Middle East Contemporary Survey, 1991:590).

In addition, For the Libyan leader, the principal issue at stake was the American military presence in the Middle East. He repeatedly bemoaned the fact that Saddam had given the United States a 'golden opportunity' to permanently station forces in the Persian Gulf. This presence, he believed, would directly impact Libya. The Libyan leader warned his countrymen:

> "...your turn will come if America and its alliance in the Gulf triumphs, they will move to the Mediterranean, to Libya" (Al-Sijlll a-Qammi "National Register" 1990).

The dwindling power of the Soviet Union and its eventual disintegration was of particular concern for Qathufi and it was a clear sign of changing times. He has argued, "We Arabs are interested in seeing the Soviet Union stand on its own feet and restore the balance. This is an important matter, which will affect the question of Palestine, the issue of Arab unity, and will put an end to imperialist arrogance" (Middle East Contemporary Survey, 1991:591).

As a result of this understanding, he was one of the few world leaders who supported the brief coup in Moscow. After the failure of that coup it became obvious that times had changed. In April 1993 in an interview with foreign journalists Qathufi went so far as to assert that he had not abandoned any of the major targets or principles that have guided Libya sine the military coup, but with the collapse of the Soviet Union and the advent of the Gulf War, the world had changed (International Herald Tribune, 16 April, 1993).

The Arab-Israeli peace talks were another bold example of new configurations in the Middle East. The Libyan leader in his September 1992 address said that "the Middle East has lost its value now that the Soviet Union is no more. The Arabs and the Israelis will get together and recognise each other and the story thus will come to an end" (FBIS-NES).

The U.N. sanctions also reminded Libya of its isolation in the world. Other Arab countries response to the sanctions was especially criticized. Before the opening of the GPC in June 1992 AL-Jamahiriya printed several articles that contained an unprecedented criticism of Qathufi and his long time dream of Arab unity. The articles declared that Libya discovered itself in confrontation with the west because it had persistently sacrificed its own interests for the sake of the Arab nation as a whole. In return, however, the Arab states had adhered to the U.N. sanctions:

> "They have deceived us, these Arabs, all of them without exception...We opened our borders and shared our bread with them...We could have lived like the princes of the Gulf or better, ridden in fancy cars and built ourselves palaces...But for the sake of these Arabs, unity and the myth of our common destiny, we left our children

> in the streets and give them jobs. We opened our markets to their rotten goods while our merchants were idle" (The Middle East, August 1992: 24).

They only exception to Libya's isolation was its relations with its eastern neighbour. Sine 1989 Egypt has gradually become Libya's closest ally. Libyan leader and Mubarak have met regularly for consultation and the latter have been acting as a mediator between the U.S. and Libya. Moreover, the two countries established very close economic ties; as of 1993 there were an estimated one million Egyptians working in Libya. By January 1993, the value of Libyan investments in Egypt, which included tourism and several agricultural projects, reached to around 80 million dollars. In addition, Libya and Egypt involved in several joint projects (Argues of Arab Economies, January 1993).

6.3 The Transformation of The World Oil Market

In the early 1990's it started to become clear that the world oil market had been changing. At the beginning of April 1990 there was again a sudden and unexpected collapse of oil prices, which continued several months and caused largely by OPEC overproduction (9) while in early 1990 OPEC oil was selling for 20.50 dollars b/d, in summer 1990 the price dropped to 13.16 dollars b/d. Libyan crude oil, which was selling 18 dollars b/d, dropped to less than 16 dollars b/d in June (Tables 6.4; 6.5). Iraq's invasion of Kuwait in August 1990 and the Gulf War created a small boom and the oil prices increased by 40 percent. Libya took advantage of the elimination of Iraqi and Kuwaiti oils from the market to increase its oil sales. Average oil production increased by 23.5 percent from an average of 1,120,000 b/d in 1989 to 1,394,000 b/d in 1990.

Higher production and oil prices boosted the Libyan economy. However, the boom did not last very long despite the fact that an oil embargo was imposed on Iraq after the War. Worse, in 1993, there was another unexpected price slump; the price of OPEC oil fell by 25 percent, to its lowest level in the last five years. The immediate reasons were a huge inventory overhang, lower than forecast world oil demand growth, and, finally, intra-OPEC competition. In fact, the final analysis, it was inability of OPEC to agree on production quotas that sent the oil market into turmoil (MEED, 14 January 1994:6).

Table 6.4: Average Libyan Oil Prices, 1986-1993

Year	U.S. $
1986	13 b/d
1987	18 b/d
1988	15 b/d
1989	17 b/d
1990	18 b/d
1991	18 b/d
1992	19 b/d
1993	16 b/d

Source: FBIS-NES, 2 March 1993

Table 6.5: Oil Production, Oil Exports and Oil Revenues

Year	Oil production ('000 b/d)	Oil Exports ('000 b/d)	Oil Revenues ($ Billion)
1989	1,170	1,040	6,9
1990	1,400	1,250	10,7
1991	1,515	1,360	9,6
1992	1,350	1,195	8,1

Source: EIU (1993)

However, what was happening was more a symptom of larger and deeper trends that has been shaping the world oil market since the beginning of the 1980's. OPEC's market power has been in long-term and irreversible decline while non-OPEC producers came to control 60 percent of world output (OPEC, Annual Statistics Bulletin). One of the most important reasons for this was the fact that the production costs of North Sea fields has been declining drastically and their production has been expending.

As a result, sine the 1970's the non- OPEC oil has become more competitive. It was more difficult for OPEC to take decisions under these circumstances since the members knew that if OPEC cuts production non-OPEC producers would take advantage of those cuts. However, that is not the only problem OPEC has been facing. In the 1980's there has been a lack of real cooperation to restrain output and reach a compatible price. The members generally can not agree how the cutbacks are going to be distributed and, even if they do, because of the problem of lack of credibility, it is hard for them to affect the market as they used to. In addition to all these, other changes, such as the conservation and energy substitution efforts in the industrialised countries, decreased the demand for OPEC oil, and hence, the organisation's market power (The Middle East, January 1994:8).

As a consequence of these developments, a growing number of analysts have been talking about a new model of energy market where largely the market, not the OPEC resolutions determine the prices. This means that the price of oil will move towards the level of marginal costs, i.e. will be set by the average production costs of the lowest cost supplier. This prospect is devastating for the oil producers because marginal costs are very low especially in the Middle East. In practice, the eroding rent means lower growth and inv inevitable pressures on living standards for the oil producing states (The Middle East, January, 1994:8).

The Libyan economy benefited from the windfall earnings resulting from the Gulf crisis. However, since then it has suffered from the effects of fluctuating oil prices and the U.N.

embargo. The fact that there was no budget from April to December 1993 reflected the chaotic state of the economy. Because of the 1993 oil price slump external earnings for the fiscal year ending 31 March 1993 were 13 percent less than projected according to the governor of the central bank (MEED, 11 February 1994:26).

Increasing value of imports also contributed to the inflation and the budget deficit. The latter was pushed up by public debt, estimated in 1993 at LD. 6,337 million "20 billion dollars" (MEED,11February 1994:26). In the meantime, the state sought to secure sufficient financial reserves to withstand difficult times. In fact, one of the reasons for the cash flow problems was the fact that the state started to preserve the country's cash supply. In addition, despite the shortage of money, a select grope of industrial and infrastructure projects, such as G.M.R, Misurata Steel project, Ras Lanuf petrochemical complex, etc., continued to receive allocations. The authorities even signed contracts for some new projects, such as *Mlita* power generation project. Apparently they were regarded as essential for the future survival of the Libyan economy.

6.4 Reducing The Role of State in the Economy

The expressions of dissatisfaction with the state of the Libya economy became a permanent feature of the meetings of the GPC during this period. There were complaints about the high cost of living (Table 6.6) the inadequate housing, and the difficulties of transferring the Libyan currency into foreign currencies. The delegates criticised the government for not paying the government employee's salaries for months. There were also complaints about the state of facilities for health and education and criticism of the inefficiency of the public administration. And, finally, the delegates expressed dissatisfaction with the shortages. As a result of the cross-border trade in food and consumer goods with Tunisia and Egypt the problem of scarcities was smaller than it could have been.

However, the goods in import-export black market were more expensive. But, more importantly, Libyan consumers still found it too difficult to discover certain goods, including spare parts for cars, air conditioning units. Canned food and clothing (The Independent, 9 April 1993:14). This was recognised by the Libyan leader in his speeches, however, the Libyan leader argued that it was the basic commodities that were important and those "carry subsidies and are sold at fixed prices...therefore are not expensive". "The people do not talk about them" he continued "the people talk about other non-basic comities-clothing and electric light bulbs; they say that the car is expensive or that the rental of the car is high" (FBIS-NES, 2 November 1993). Apparently Libyans had a different definition of what basic comities were.

Table 6.6: Consumer Prices *
(Average Percentage Change)

Average 1975-1984	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**
11.2	9.1	3.3	4.4	3.1	1.3	6.8	5.0	5.0

* Base year for national account is 1975
Source: IMF, world economic Outlook, October 1993:146.

However, the Libyan leader, in general, acknowledged the complaints. He was concerned about the rumours of corruption and mismanagement about the state. In his September 1, 1992 address to mark 23rd anniversary of the *Al-Fatah* revolution he endeavoured to dispel those rumours:

> "You have been saying that there were some people who have not received their salaries. Okay, yes, it means that there is no money. That is not something to be ashamed of. It is not shameful, actually, if there is no money...if the oil [revenue] is not enough for health, education or the salaries about which you are talking, it is not something that is secret. Everyone knows how many barrels of oil are produced each day, the price, and where it goes to. Where is the money? First, this shortage is not caused by embezzlement or by stealing... These huge sums have not gone into somebody's pocket. This means that actually this money is not there to spend... We are in this age where no one can hide anything or protect anyone or protect this or that person" (Al-Sijlll a-Qammi "National register", 1992).

The problem, according to the Libyan leader, was the fact that the country had overstretched itself by expanding too quickly (MEED, 11 September 1992:18). Therefore, part of the solution was to reduce the state's role in the economy, which first and foremost entailed a sharp cut in state expenditures. Special emphasis should be given to health and education services, sine they constituted about half of the administration budget (about LD. 1.2 billion or 4.25 billion dollars). The Libyan leader declared that the state "should rid itself of" these tasks, "except within the acceptable limits which do not involve high costs" (MEED, 19 March 1993:14) and he added:

> "We must from now on contribute towards education, health, and other public facilities; we must contribute to them in order that they can continue. Also privatisation must go ahead. Anyone wants to open a school is free to do so. Anyone who wants to open a pharmacy is free to do so. Anyone wants to open a hospital or a clinic is free to do so as long as there is no exploitation. You can do so on your own, with your family, or with partners. This will improve the situation and take the burden off the public institutions" (Al-Sijlll a-Qammi "National register" 1992:19).

As for defence, the Libyan leader also proposed that the military service should be cut from two years to at most five months, and each town and village should take care of its own security. Similarly, state-funded agriculture and manufacturing ventures, which were unprofitable, should be close down (MEED, 19 March 1993:14). Finally, , the Libyan leader , in a speech in May 1993, signalled that even fees on electricity and postal services could be increased (10).

The other important initiative to reduce the size of the state has been centred around the objective of decreasing the number of government employees. The Libyan leader informed the Libyans not to depend on state employment. He was mainly referring to the fact that their salaries had not been paid for months. Libyan leader saw this as the cause of corruption in the public sector: "What makes them ask for bribes is the fact that their salaries are not adequate" he said (FBIS-NES, 10 May 1993:24). The Director of the tax corporation in Benghazi explained the major reasons why did the Libyan state not pay the salaries for the state's employees, he said:

> "According to the taxation act for 1973, the rates of taxation are considerably high in Libya compared to other distributive (rentier) states. Yet, the apparent efficiency of the state in retrieving the tax may provide a false indicator of the real production capabilities of the public institutions in Libya. The efficiency of the tax system in Libya can simply be due to the fact that the bulk of the workforce is employed by the state organisations, and therefore all the income tax for this workforce is initially charged from the payroll, which is not a good indicator of the productive capabilities of the state. However, this fact is emphasised by the absolute failure of the taxation system to retrieve income tax from other sources. However, during time of the oil boom the state has not been concerned about taxation leaving the relevant institutions and mechanism of taxation lagging behind. However, following the sharp deterioration of the oil revenues, the state has become more concerned about taxation, and completely failed its relevant institutions and mechanisms to conduct the job in a more effective and fair manner. Instead the state has resorted to the random estimation rendering the whole taxation process a burden on the workforce. In addition, this attitude has lead to the emergence of other unjustified fees charged without the supporting legislations, leading to the abuse of these fees adding another dimension to the already deeply rooted phenomenon of administrative and financial corruption. All this tend to provide undisputable evidence of the ever diminishing productive powers of the state institutions, rather than provide proof of the effectiveness and capability of these institutions".

Decentralisation was also regarded as a solution to the economic crisis. In an extraordinary session of the GPC in Sirte in 1992 a new administrative structure was adopted. It was decided to break up the country into 1,500 semi-autonomous *Mahallas* (Communes or municipalities), each with its own budget, legislative and executive powers. It seems that there were basically four reasons for this decision: First of all, it was hoped that as a result of this measure the civil service pay roll would be reduced. While introducing the idea the Libyan leader said that Libya had "a very big octopus, which is administration" and decentralisation would help to eliminate that (MEED, 19 March 1993: 14).

Second, the state seemed to want to reduce the role of the G.P.C. by concentrating authority in the hands of the *Mahallas*. Finally, I would argue that the Libyan leader also wanted to diffuse the responsibility for the problems in the Libyan economy. However, as of the end of 1993 the implementation of this decision has not materialised. This was to be expected since another decision that was taken in 1988 to decentralise government organs away from Tripoli has also never really been put into force, because of resistance from government employees to the move (MEED, 23 October 1992:34).

These measures to reduce the state could be considered as very drastic even by the I.M.F standards. If implemented they could have cut state responsibilities to a minimum. This was not surprising in the light of Qathufi's aim pf creating a "stateless" society. There were, however, three problems in implementing a programme that required such a drastic cut in the role of the state in the economy in Libya; first of all, as it was the case with previous attempts by this state to dismantle the state, the paradox here was the fact the oil rents, which constitute almost 98 percent of Libya's external revenues, directly accrue to the state. Unless one turns the central administration to just an organisation that distributes the oil rent, the state's role in the economy increases because of this revenue.

The Libyan leader seemed to be aware of this when he proposed the distribution of half of the oil revenues directly to the population after deducing the share that goes for public projects (FBIS-NES, 20 November 1992:19-22). This populist plan was not materialised because of the criticism of the other state officials (FBIS-NES, 10 March 1993:17-21).

The other two were particularly related to the nature of the implementation of economic liberalisation policies themselves. First, the measures that aimed to cut state spending and employment create considerable resistance and protest in most of the countries, but more so in a country like Libya where about 70 percent of the working population was employed by the state and state spending constituted the most important part of the GDP.

Therefore, it is safe to argue that implementation of these policies would create great deal of resistance from the population. Secondly, as Chaudhry (1993:249) argues, "creation of markets requires that the instruments of the state must be redeployed to perform the much more difficult task of indirect regulation and administration". In other words, the state remains central to the process of liberalisation and if the policies proposed by the Libyan state were implemented it would have been self-defeating.

6.5 Further Privatisation of the Economy

It could be argued that criticisms of the state-owned enterprises reflect their lack of efficiency and profitability, which can be due to a bad allocation of resources, and poor management. The productivity of the state sector enterprises is generally lower than the productivity of the private sector. In many developing countries, the governments used the state sector enterprises to achieve social objectives, such as to supply goods and services with lower prices compared with the cost of these goods and services, and also to provide opportunities to reduce unemployment (Chang, 2003).

I would argue that the privatisation of state owned enterprises is currently a large scale process for the transfer of state owned enterprises to the private sector. Privatisation, as an instrument for development is finding significant currency in industrial and developing countries throughout the world and is one of the common components of socio-economic reform programmes being implemented around the world. The major aim of this policy is to reduce the drain on government resources, caused by the persistent losses of public enterprises, and to create greater opportunities for private investors to expand and modernize these enterprises with the aim of liberalizing the economic environment for rapid industrialisation.

Eystan Sheshinki and Luis Felipe- Lopez-Calva (1999) point out "privatisation has been a key component of the structural reform programme in both developed and developing economic aiming to achieve a higher micro-economic efficiency and foster economic growth and to reduce public sector borrowing requirements through elimination of unnecessary subsidies". Privatisation, however, can also be used to refer to those measures taken by a government to increase the role of the private sector in an economy.

It is in this sense that "privatisation was, and is, used in the case of the former socialist economies in Central and Eastern Europe and the former Soviet Union. But it can also be used in the case of some Arab economies that are undergoing transitions, albeit of a different kind, a number of countries, such as Egypt and Tunisia in the 1980s and Algeria today, are striving to move from a state-controlled and dominated economy to a market-based economy where the private sector plays a much greater role. Other countries, such as the oil countries in the Arab region, Libya for example, have begun to realize the importance of privatisation in diversifying their economic base away from a heavy reliance on the energy sector" (Shehadi, 2002:6).

Regarding the role of the public sector, the director of the research center for economic studies said that:

> "Because of the public sector dominance on all production and services activities in the 1980's and 1990's, the budget was characterized by its continuous deficit. It used to cover such deficit from the banks. The total debt of the government from the banks, the central bank of Libya and commercial banks, reached 5545 million dinnars in 1995. What I want to stress on is that when the oil prices dropped in 1980s, the state should continue to keep the expenditure the same as before to protect what had been achieved and to avoid the budget deficit and debts from the banks". However, the privatisation processes, which are followed by the Libyan economy as a system to solve the economy problems, do not mean to keep the state totally away from the economic life of the country but, my point of view is that the state should leave some production of commodities for the private sector. It also enables the private sector to participate in the services and production economy through partnerships and shares. Thus, the state role depends on the administration of the national economy only. This can lead to stability, balancing, equal opportunities and stop the monopolization of the state of all strategic industries and services. Also, it can organise the justice, security and defence".

The economic reform necessitates the introduction of the suitable legislations and regulations organising the different economic activities. These legislations include the laws which protect ownership, the honour of contracts, the protection of the right of both producers and consumers, the limitation of the general domain of the economic activities, the establishment and the codification of practices that will win the trust in the economic policies, to ensure the fair and transparent procedures i.e. confirmation of the rule of law. In this respect, the Secretary of the People's Committee in Benghazi emphasised that:

> "The introduction of legislations organising the economic reform and privatisation activities and determining in a precise and accurate way the rules and procedures for these activities and the associated roles of the state and private sector in the process. Also, these legislations should emphasise the basis and the criteria of the responsible authority as well as the legal, political and administrative accountability. The introduction of these legislations will provide a strong indication of an established conviction and political will for change, and provides a clear evidence of the values of transparency and the rule of law. In the scope of economic reform, numerous legislations have been issued since the eighties and until now. These legislations are mainly targeting the reform of the different economic sectors and the associated activities. Nonetheless, had all these legislations been properly enforced, the economic reform process in Libya would have been the most successful process in the whole Arab region. However, there have been absolute consistency and harmony between these legislations and the recommendations of the International Monetary Organisations regarding the restructuring of the economy. But unfortunately, most of these legislations and regulations are left inactive whereby the relevant bureaucratic executives of the public sector organisations are still free from blame, and not calling to account for that failure".

In addition to the shrinking of the public sector, the Libyan policy aimed to continue the efforts to reactivate the economy through the private sector and rectify the liquidity crisis. Libyan state went further during the second stage of the economic refroms, in this respect; the most important development was the establishment of the general institutional framework. The following laws were adopted:

(1) A June 1992 law stipulated the establishment of joint-stock companies (*sharikah musahimah*). It allowed the companies to hold foreign currency accounts and import equipment and exempted them from income tax on reinvested profits up to 80 percent of the gross taxable profit. However, a ceiling was imposed on share ownership eight percent for companies with capital of between one million – two million Libyan Dinars (3.8

million - 7.6 million dollars) and five percent for companies with more capital. It was stated that further tax exemptions were possible with the permission of the government (MEED, 18 September 1992:13).

(2) On September 3, 1992 the GPC adopted a general privatisation law covering private sector involvement in the Libyan economy. The law allowed the private sector to engage in economic activity and stipulated provisions and regulations covering company creation, including the limits on the number of shares that can be owned by any one individual. It also provided for help and support to such companies from the state and commercial banks, which will provide assistance, loans, and other financial and technical facilities. Finally, it stated that these private companies will be exempt from income tax on re-invested profits amounting to no more than 80 percent of the gross taxable profit.

(3) In March 1993 law No. 1, governing the establishment of private banks, was adopted. The law stated that nationals and public and private local companies may form commercial banks, provided that the new financial institutions have a minimum capital of LD.10 million (37 million dollars). Shares also could be issued in the condition that their value doses not also exceed LD. million each. The law said that the Central Bank of Libya will continue to control foreign exchange but that nationals authorised by the Bank may keep foreign currency in local bank accounts and transfer it freely (Articles 56 and 79). Moreover, the privacy of accounts will be respected, and no retractions will be imposed on their use by account holders (Article 72) (FBIS-NES, 24 March 1993: 11-12).

(4) And, finally, in July 1993 General People's Committee issued a decree (No 431-93) allowing the liberalisation of the wholesale trade. The new decree stipulated that it is

permissible to practice wholesale trade through partnership and limited companies, in accordance with the privatisation law (BBC Monitoring Weekly Economic report, Part 4, 2 July 1993).

Consequently, the state started to create the institutional framework within which the private sector could function the liberalisation of the state of property rights meant that, for the first time sine 1977, individual ownership was permitted. Moreover, sine the nationalisation of banks in December 1970, for the first time the establishment of private banks were allowed. The development of banking sector will possibly improve the allocation of scarce credit to the growing private sector. "The law that allowed for the establishment of joint-stock companies was also extremely important, since the establishment of these companies are generally regarded as a crucial stage especially in the transformation of the non-market economies. Because they raise money in these countries where there is a limited amount of private capital" (Ramadhm, 1993).

With respect to fail of the public sector to achieve its objectives during 1980s-1990s, the head of the Libyan economic association points out;

> "The public sector was the major sector of local employment. In the past the productive and basic service associations were transferred to public firms. In spite of their relative success in the productive manner, the benefits of the large investments in agriculture and industries have not achieved the important change in the society. Because of the decrease in the oil price in mid-1980s up to the 1990s the Libyan economy suffered from many limitations caused by the unbalance in the national revenue and payments. Then the inefficiency of these associations has the role in complicating these problems. They failed to find an alternative or another source rather than the oil. Their abilities to compete were very low and this caused the decline of the commercial balance. Also, their losses increased, they had no continuous financial support which deepened the shortage of finance. As a result of that the economic investments and employment have declined. I believe all these aspects in addition to the socialism policy have lead to restructuring of the

> Libyan economy to give more opportunities to the private sector to play an effective role in the national economy.

Therefore, during this period it became clear that the state wanted to create a private sector. Although it supported private capital accumulation, it also wanted to put limits on it for essentially two reasons: First, it is safe to argue that the state dose not want suddenly to create a nouveau rich class. This would not only damage the state's ideological credibility, but also create a power source that would ultimately challenge it. Secondly, it seems that it also wants to channel the money that has been circulating in the underground economy and turn it into investment. That was the reason for the breaks that were given for the reinvested capital. This way it was hoped that the private sector would contribute to solving of the economic problems the country is facing and also provide new job opportunities for Libyans who would be laid off from the public sector.

In addition to creating a legal institutional framework for the functioning of the private sector the state also made changes in the existing institutions by stipulation a law on the privatisation of state enterprises. On May 5 1993 General People's Committee issued a resolution specified the bases, regulations, and procedures of ownership of the installations listed in theses statues, and also mechanism through which these installations will be privatised (FBIS-NES, 7 May 1993:18).

Finally, in a televised speech in May 1993 the Libyan Leader proposed three additional measures. First of all, he argued that Libya should consider passing a law providing guarantees for foreign capital investment. "In the past we used to be afraid, but now we are not..." he said, "you can bring companies with whom you set a factory or any other amenity"(Al-Sijlll a-Qammi "National register", 1992: 25).

In this context, the assistant manager of the Investment Encouragement Corporation pointed out that the corporation has ambitious objectives which can be summurised as follow:

- Provision and encouragement of the appropriate circumstances might increase the foreign capitals coming into Libya.
- There is no doubt that the foreign monetary investment needs appropriate atmosphere and reasonable factors to enhance the attraction processes. The foreign investment needs political and economical stability, clear investment laws and regulations. It needs certain types of services of associations, especially, banks, insurance companies, communication and transportation. Above all we have not to forget the ability of the officials in understanding and monitoring the investment. Other factors such as, incentives and privileges, free taxation periods and custom duties should be provided. In addition, the availability of trained technical labour and a reasonable size of market in relation to international market should be secured with the effectiveness of the advertisement and propaganda for investment.
- Well-planned maps of investment, to clarify the opportunities and potentialities of the investment, are important with the flexibility of administrators in implementing investment projects. Provision of such factors may encourage the attraction of foreign investment to Libya, which has already started to activate the local market to open itself to the international markets.

Certainly, foreign companies have been present in Libyan oil industry and foreign contractors also work in almost all major projects. However, this proposal for the first time called for foreign investment in every area of Libyan economy. In an interview with AL-Arab, a London-based newspaper, the Libyan leader said that "investments of foreign capital are allowed without any reservation, and there will be legislation to guarantee that" (FBIS-NES, 13 July 1993:19). In fact, the GBC in its January 1994 meeting adopted a resolution calling for the encouragement of foreign investment especially in industrial projects that require high technological expertise (FBIS-NES, 2 February 1994:20).

Secondly, the Libyan leader suggested that Libya should encourage mass tourism to the country. Like Cuba, for some time the Libyan leadership has regarded tourism as an important source of revenue at the time of economic crisis. Actually, a public committee was formed in 1991 and made plans to launch a campaign to market Libya overseas (African Economic Digest, 3 June 1991:21). But unlike Cuba, not much has come out of these attempts. In his May 1993 speech, the Libyan leader for the first time proposed that foreign companies should be invited to invest in tourism.

Finally, as response to the complaints about the difficulties of transferring the Libyan Dinar into other currencies, , the Libyan leader proposed that the country should put on the agenda making the Libyan dinar fully convertible. Libya needs convertibility also due to its currency is overvalued and as such would prevent the country from attracting foreign investment. The Libyan leader rightly warned that "this could only be done when there was adequate production, otherwise it would be catastrophic". The GBC adopted a resolution in 1994 and listed the necessary conditions for the fulfilment of the aim of convertibility.

6.6 Conclusions of The First and Second Stages

To what extent have the policies that were adopted during these stages been implemented? There has been some privatisation in the service sector. For example, the ownership of Tripoli's two largest hospitals, *AL-Jalla* and *AL-Fateh,* was transferred to a company whose shares were held by hospital staff (MEED, 13 November 1992:67). However, even if the policies have not been immediately translated into practical steps during this period, there were extremely important moves to liberalise Libya's state-dominated economy. Especially crucial was the attempt to provide a legal institutional framework for the operation of the private sector.

Nevertheless, total implementation of the policies that were put forward during this period were not easy. The difficulties, I would argue, stem not too much from lack of "political will" but rather from four very important constraints:

The first set of constraints originate from the society. It was hard to decrease the level of state expenditures in a "distributive state" where an important part of the legitimacy of the state rest on its distributive capacities. In fact, it became obvious by 1994 that there was an opposition to certain measures. In February 1994 meeting of GPC the delegates asked the state "to continue to subsidize rationed commodities, provide free education and health care, and provide the essential food, clothing, and transport that the society requires" and requested that there should no "additional financial burdens on salaried and wage-earning citizens with limited income" (FBIS-NES, 2 February 1994: 21-26).

As pointed out by Niblock (2001:75) "the livelihood of most Libyan became much more dependent on direct state support, through rationed subsidized goods. Given that it was not possible for most Libyans to live on their wages and salaries, they increasingly depended on subsidised goods, which they obtained from their local cooperative societies. The state provided families with ration books bearing different entitlements according to the number of people in the family. Families had to be registered with specific cooperatives and, by the end of 1997; some 750,000 Libyan families (in effect, almost the whole Libyan population) were registered in a total of 5,598 cooperatives".

Similarly it was difficult to reduce the number of state employees in a country where nearly 70 percent of the working population works for the public sector. Again the measures have taken this effect created opposition. The 1994 General People's Congress also showed great concern about the issue of employment. Once of the resolutions adopted called for "organising the fields of employment, distributing employment offices everywhere in the Great Jamahiriya in order to facilitate the procedures for those looking for employment and giving priority in employment for Libyan nationals and making them replace foreigners" (FBIS-NES, 2 February 1994:21).

Unemployment for the first time since the establishment of the Jamahiriya could become an important issue. The state, being aware of the situation, was hoping that the newly flourishing private sector can create sufficient jobs to compensate for the loss of jobs in the public sector. This was part of the reason why civil servants were barred from having other jobs in June 1993 by a decree (No 365) issued by the General People's Committee (BBC Summary of World Broadcasts, 11 June 1993). This concern has been emphasised by the deputy Secretary of production union based in Benghazi city, he said:

> "All we know the unemployment is considered a complicated phenomenon, because of its dangerous social, political and economical dimensions. The unemployment between the youths is one of the important problems confronting the Libyan State. In the mean time, there is a large percentage of youths unemployed of threatened by unemployment in the near future. The percentage of unemployed is 10.5% of the total of population and 11.7% between the Libyans in 1995. The problem is more complicated between the youths of age 20 to 24 years old; reached 23%, while according to the reports indicate that the unemployment between the educated people of high secondary or university levels is 14.3% of the total population. There are many causes of that:
>
> 1. The increase of the rate of population projection according to the last two censuses (1984 and 1995) about 2.8% and therefore the rate of labour force has increased as well and so the youths.
> 2. The educational system and training have failed in provision of qualified labour to compete with the foreign labour force.
> 3. The role of the State has been decreased in provision of work opportunities in either the service sector or what projects it owns and runs and even its efforts to leave all these sectors to the private sector.

Another reason for the difficulties of fully implementing reforms is the concern of the leadership about the issues of distribution of wealth and appearance of corruption. Niblock (2001:75) highlighted that "it was clear that the corruption has been increased. The economic pressures and the growing gap between rich and poor meant that bribery came to characterize interactions between public institutions and private individuals. The regulations on private sector activities were, in any case, usually so restrictive that it was possible to function commercially only if some regulations were disregarded and that usually meant paying off some official. One example is the purification committees, which were established to prevent merchants from over-charging but themselves became a party to, and beneficiary of, the evasion of price controls" (11).

Corruption was, to some extent, a reflection of the more general commercialisation of society. The need to make money ensured that most social groupings became more oriented to commercial values that most esteem for the value of disinterested work for the benefit of others, which had previously figured as a key value in the Libyan system.

In several of his speeches, the Libyan leader referred to what he called the "injustices" in the society and warned about would-be consequences of these injustices when he said "[d]o not compel us to take up arms against each other's cars and houses and shops on fire. This will come if injustice continues" (Al-Sijlll a-Qammi "National register"1992:20). He also warned in his September 1992 address that corruption will not be tolerated:

> "If you are going to set up cooperative societies and private ownership, run everything and take what you have into your hands then look, there is a remark there is no room for beating around the bush, and there can be no messing about the laws and regulations... Please let everything be sound and correct and regarding the slogans you are raising I fear that I may have to incite Libyans against one another, and then we too, for two, three or four months, will have smoke, fires, smashing up and the country closed down, until accounts are settled definitively...If you do not want to arrive this then please behave correctly in accordance with law" (Al-Sijlll a-Qammi "National register", 1992:20).

This kind of rhetoric does not encourage would-be Libyan entrepreneurs to invest and weakens the credibility of the state's intentions in their eyes. However, the political elite also seems to be concerned about the possible effects of the privatisation and especially worried about the reaction of groups such as the revolutionary committees, which is one of the most important constituencies of the state. The Libyan leader was attempting to reach them when he was framing privatisation as a part of the socialist programme:

> "What is socialism? It is people taking part together in something. So this privatisation should be set up, and loans and assistance should be given to those who are building factories, roads, schools and educational institutions in general, universities, hospitals, clinics and workshops. Whoever, owns

> something must be given loans and assistance and, consequently, the Libyans, money will be going to the Libyans themselves" (Al-Sijlll a-Qammi "National register" 1992:20).

Third, despite the efforts to remedy the situation, Libya still lack the institutional capacity to create and sustain a market economy. Because of the excessive dependence on external revenue the institutional contexts within which structural adjustment policies operate are generally lacking in the country. Particularly the underdeveloped state of the financial, credit and banking system will negatively affect the implementation of reforms. As other non-market economies that are attempting to create markets, Libya also faces the problem of relatively low level of domestic savings.

The final set of constraints originates from the outside. The international environment presented challenges rather than opportunities to Libya during this period. Especially in 1993 the economy further declined amid falling oil prices and tightening of U.N. sanctions. As result of the Lockerbie crisis and the uncertainty and anticipation it created, in several occasions the state imposed stringent restrictions on transactions in hard currency. The restrictions limited chances of Libyans to travel abroad and forced private sector to depend on barter deals to finance imports.

Despite all these constraints, however, attempts to reduce the state's role in the economy and to encourage the private sector were continued. Particularly, as a result of the changes in the world oil market, Libya can no longer sustain its earlier policies. This seems to be the general understanding in the leadership. In the meantime, as the crisis continues the technocrats seem to be getting the upper hand in the state.

In addition to the appointments to the General People's Committee (MEED, 11 February 1994:26), this became too clear after Qathufi's announcement about the direct distribution of oil revenues to the public. Several government officials rejected the proposal on economic grounds and prevented its implementation. That and other issues were freely discussed in series of meeting with economic, finance, oil and water experts. The meetings presented a very grim picture as far as the economic future of the country was concerned (FBIS-NES, 10 March 1993:17-21; FBIS-NES, 12 March 1993:14-19).

End Notes

(1) After the war in Chad was over, the relations between Libya and France had improved. In April 1991 the French Foreign Minister paid an official visit to Tripoli where he praised Libya's stand during the Gulf crisis and expressed his country's interest in promoting "cooperation in all fields." It seemed that the French judge's decision was not welcomed by the French government and the French foreign minister explained that "the case against Libya was far from cast-iron". In the meantime, the damage had been done and the relations between the two countries deteriorated to some extent (Middle East Contemporary Survey, 1991:590).

(2) Although the decision was not to extend sanctions to export of oil protected the economic interests of Western European countries, the economic interests of Russia were not protected. The freezing of Libyan assets abroad meant that Libya would not be in a position to repay its substantial debts to Russia.

(3) The Security Council's decision to tighten the sanctions on Libya came after weeks of delay because of the Russian threat to veto sanctions unless the Council agreed to use frozen Libyan assets to pay an arms debt of four billion dollars to Russia. In the end, Moscow settled for a paragraph stressing that Libya is still expected to pay its debts.

(4) Oilivest, a Dutch registered but 100 percent Libyan owned company, was found in 1988 with the aim of expanding Libyan downstream capabilities. By the end of 1992, the company had 33 subsidiaries, many using Tam-oil trade name, including companies owning refineries in Italy, Germany, and Switzerland; some 2000 gasoline stations in Italy, over 300 each in Germany and Switzerland, others in Spain, Hungary, Czech Republic and Slovakia; and pipelines and port oil storage tanks in Germany. The total investment of the company reached to 702 million dollars in the same period. Overall Oilinvest's subsidiaries were refining and marketing over one third of the country's total output (IBC International Country Risk Guide, October 1993; FBISNES, 12 March 1993: 17-18).

(5) According to the chairman of one multinational oil company Libya "ranks one or two as far as having substantial oil discoveries" (MEED, 30 August 1991:4). Another reason for the lack of enthusiasm in the part of some international oil companies is the fact that they do not like the terms offered by the Libyan state (The Middle East, October 1991: 41).

(6) The only major oil companies to take up offers were Royal Dutch Shell and Petrofina of Belgium, but even they took limited concessions.

(7) "The new system works as follows: A Libyan exporter dispatches a shipment to a purchaser, normally in Europe. On receiving the cargo, the purchaser has to make arrangements through its own bank to make payments into one of the newly established accounts, designated by the Libyan seller. When making the payment, the foreign customer needs to provide documentary evidence into the relevant regulation body to prove that the funds are for the payment of oil, gas or agricultural goods. This normally involves the presentation of a bill lading or an invoice. Once completed the funds are deposited into the account, allowing letters of credit (LCs) for goods supplied to the Libyan market to be opened". "The first external accounts were opened in financial funds began to filter into the external accounts in the second week of January" 1994 (MEED, 28 January 1994: 2).

(8) The black market value of the dollar increased from two Libyan dinars to LD. 3.5 in one year (Agence France Press, 19 December 1993 in FBIDSNES, 21December 1993,20-21).

(9) The main O.P.E.C. overproduces were Kuwait, Saudi Arabia, and the U.A.E.. Libya had kept reasonably close to its allocation quota of 1.23 million b/d for the first half of 1990, producing an average 1.33 million b/d, 7.5 percent over the O.P.E.C quota (Simon, 1993:219).

(10) "We are making mistakes...when we ask for lower electricity and postal services prices" he said (FBIS-NES, 10 May 1993:24).

(11) The extent and significance of corruption was recognized in a report written for the Libyan authorities in 1996. The report stemmed from discussions among a group of economists at Garyounis University in Benghazi-Libya. It gave a black but realistic view of the deficiencies in the economy and put forward recommendations. The report stressed that corruption was not only bringing illicit gains to individual administrators but was also distorting the pattern of economic policy.

Chapter Seven The Third Stage of The Economic Reform Programmes

7.1 Introduction

Dramatic changes have been taking place in the course of Libyan foreign policy over the past few years. Libya has entered a new stage of relations with West by solving the Lockerbie crisis with United States and United Kingdom and has agreed to compensate the families of those killed in 1984. Therefore, Libya has undertaken several steps to be reintegrated into the international community. At the domestic level, it was noted that the implementation of the privatisation programme has been stopped during the previous ten years, whereas the state currently began to reinforce the privatisation programme and motivate the private sector in order to activate it for more investment, in addition, the state started to transform the ownership of a number of public sector firms to the private sector.

This chapter examines the third stage of economic reforms and begins with the discussion of the dramatic and new changes in the course of Libya's foreign policy, which aimed at bringing about a rapprochement with the Western countries in order to reintegrate it into the international community. Moreover, this chapter discusses the peaceful regional and international role, which Libya endeavours to play and also its new position on Arab-Israeli conflict. Then, we consider Libya's decision to disarming its weapons of mass destruction programme and the response of the Western countries to it. In terms of economic policy, the reinforcement of privatisation process, the role of the state in the next stage and the transformation of the public sector to the private sector are discussed.

7.2. Changes in Libya's Foreign policy

Libya's recent flexible approach to the issue of the Lockerbie crisis saw it turn to international arbitration in the International Court of Justice (ICJ), in accordance with the 1971 Montreal agreement that renders the court responsible for the settlement of legal disputes between states. Libya's surrender of the two Lockerbie suspects to the Netherlands on April 5, 1999, and the conclusion of the trial, which found Abdel Basset al- Megrahi guilty and acquitted Al-Amin Fhimah on January 31, 2001, left the international community divided over how to treat Libya.

"In the wake of the trial, several countries were eager to close the chapter on the Lockerbie era. Motivated by economic ambitions and the belief that the best way to consolidate the positive changes in Libya's behaviour was to engage it, they argued for Libya's rapid reintegration into the global polity and economy. Libya sought to take advantage of these leaning and to ease its rehabilitation with Europe by providing compensation to the families of those killed in 1984. Libya's efforts to expedite its reintegration also included the offer of new opportunities to international investors" (EIU, 2000:2-8).

Furthermore, Libya's management of the crisis not only guaranteed it Arab and African support but was also the key to a new stage of relations between Libya and the West. This action led to the suspension of sanctions against the country.

In October 2002, Libya agreed to pay $10 million in compensation to each of the 270 families, adding up to a total of $2.7 billion. According to the agreement, this compensation is payable in three instalments, with the total to be deposited in a special account for eight months during which time sanctions are to be lifted or the agreement considered void. The first instalment, of $4 million per family would be contingent on lifting UN sanctions, with the next $4 million linked to the ending of US sanctions, and the final instalment of $2 million to be paid only when Washington removed Libya from its list of state sponsors of terrorism. In this context, "US Secretary of State Colin Powell commented that the offer was a step in the right direction" (Simons, 2003).

In a message delivered to the Security Council on 15 August 2003, Libya admitted responsibility for the Lockerbie bombing. The following day, the US declared that it had no objection to the Security Council lifting its sanctions on Libya, and these were removed on 12 September 2003.

However, United State's decision in February 2004 to lift the Libya travel ban imposed on US citizens was no surprise for many observers, who have been expecting a full return of Libyan-US relations given that the country has passed all the "international tests," managed to shed its "rogue state" status and yielded to the rules of the US-led world order. The US decision was not a snap one, and rather comes as a result of changes that have been taking place in Libyan foreign policy over the past few years.

One must further remember that the Libyan leadership had come to realise that the Lockerbie crisis, the consequent sanctions, and regional and international isolation, could have spelt the end for the country's state, or at the very least jeopardised its legitimacy. However, the focus of the new Libyan foreign policy has been to promote Libya as a state enjoying good relations with countries around the world and as a leading player in peacemaking and in the enhancement of political stability on the regional and international levels. This slowly constructed policy was formed through the successful handling of various issues:

- Libya stopped support for terrorism, announcing it would end its relations with all groups and organisations involved in terrorist actions;
- Libya declared it had no camps for the training or harbouring of terrorists and called on the UN to send an inspection committee to check;
- Libya declared that it would not allow direct or indirect use of its land, citizens or institutions in any terrorist activity and would punish anyone proven to be involved;
- Libya affirmed that it respects the choices of others and that it bases its relations on mutual respect and non-interference in internal affairs.

Notably, Libya halted all support to rebels and revolutionary systems in Africa. In order to lessen the impact of the economic boycott against it, meanwhile, "Libya worked to improve its relations with Egypt and Tunisia, while relations with Morocco and Sudan were improved by the suspension of backing for the Polisario front and the forces of John Garang, respectively" (Ali, 2004).

7.2.1 A Peaceful Regional and International Role

Libya has sought to play a positive regional and international role in order to change the image that has formed of it in the mind of the international community. It established the Community of the Sahel-Saharan (CEN-SAD) States in 1997, in which it was joined by 18 Arab and African countries. Libyan diplomacy also succeeded in convincing the states of Africa to turn the Organisation of African Unity (OAU) into the African Union (AU), which was formally launched in 2002.

Thereby, related to the birth of the African Union (AU), however, being implemented as a completely different initiative on the African continent. This new African initiative is a pledge by African leaders, based on a common vision and firm and shared conviction that they have a pressing duty to eradicate poverty and to place their countries, both individually and collectively, on a path of sustainable growth and development, at the same time, to participate actively in the world economy and body politic, through enhancing more economic cooperation between the AU and other regions. Thus, regarding the historical and economic relations between most African and European countries particularly in the field of trade exchange, the next future is likely to witness more economic cooperation between the two Unions. Libya, as an active member of the African Union tends to resume its role as bridgehead between African and European Unions.

As reported by Gerardo Quecedo (2002), the Chairman of the delegation during the first European Parliament/Libya Interparliamentary meeting held in June 2002 at Tripoli. "Libya states clearly that it had never been opposed to the Barcelona process; rather, in the process itself had left Libya out, despite its 2000-Km and more of Mediterranean coastline. Also, as stated by the Libyan Authority there was no sense against the process, however, Libya is willing to participate in this process as a full member, in other words not with mere observer status. Accordingly, Libya wished to be treated on the same basis as the other Mediterranean basin states, and stressed that the exclusion of Palestine and Israel from the process was not an insurmountable obstacle to Libya's participation.

Furthermore, as an important step to improve Libya's image, which had suffered from the economic and political isolation, resulted from the U.N sanctions imposed in the early 1990s, during the Durban Summit (South Africa) on 10 July 2002, the African Union assembly proposed Libya as the chairman of its Human Rights Organization. In addition, (Ali, 2004) argues, "the African government's nomination of Libya as chair of the next United Nations Commission on Human Rights underlines new commitment to promote rights and good governance".

Libya made great efforts to gain the respect of international public opinion by its mediation in various international crises, such as the Filipino Abu Siaf group's kidnap of westerners, and has assumed a role in the solving of several problems in Africa, such as in Sudan, Sierra Leone and Congo. In this regard, Qathufi's website (www.algathafi.org) contains the leader's vision for a more peaceful and secure world. Here, the Libyan leader promotes the peaceful solving of world crises, offering his advice for the resolution of the North Korean crisis and means of dealing with terrorism.

7.2.2 The Arab-Israeli Conflict

Libya has traditionally taken an anti-Israeli stance, and has previously suggested that the only solution to the Arab-Israeli conflict would be a combined Arab attack on Israel to liberate all occupied Arab territories. Libya, accordingly, used to oppose any Israeli involvement in Africa, which it likened to western imperialism. In this sense, Niblock (2001:220) emphasises, "the Palestine issue has been crucially important in al-Qathufi's Arab nationalism. It has constituted the pole around, which his Arabism has revolved, creating the most urgent and immediate grounds for Arab unity the Arab world, have been shaped and conditioned by the positions adopted by their governments on the issue of Palestine".

Libya's new approach to the Arab-Israeli conflict is quite different. Qathufi's current vision for the settlement of the crisis, as detailed in his White Book, is based on the establishment of a new state, "IsraTine" in which Palestinians and Israelis would live in peace. This state would have free elections, supervised by the UN, and would be free of weapons of mass destruction. As for some of the more difficult issues, the Libyan leader supports the right of return for Palestinian refugees and proposes the internationalisation of Jerusalem, as a special city for many religions, and also its membership of the Arab League.

This initiative is also based on the legitimacy of various international resolutions and agreements. The right of return of refugees, for example, was stipulated in Security Council resolution 191, while the internationalisation of Jerusalem was recommended by the UN's famous resolution on the division of Palestine.

7.2.3 Relations with the West

Libya was becoming more and more uneasy about its treatment by the international community, the Libyan leader's actions in late 1990s were the first of many to come, as he launched a campaign to end the isolation of Libya, by any means necessary.

Libyan policy towards the West is now directed towards re-establishing ties, which were in continuous decline in the 1970s and 1980s. Apart from goodwill gestures over the Lockerbie affair, Libya roundly condemned the 11 September attacks and offered the United States its assistance in the fight against terrorism. On the contrary, "during the 1980s, Libyan relations with Western Europe and the US have been generally strained as a result of Libya's policy makers believed that most European States had repudiated their imperialist legacy by the 1970s" (Ali,2004:3). Therefore, a conviction that paved the way for increased trade, if not for cordial political relations, and the Libyan ties with Western Europe were for the most part commercial. On 2nd, May 2002, the Libyan leader addressed on an anniversary of people's authority celebration:

> "By the passage of time, everyone changes, through experience. In the 1970s we supported liberal movements without knowing which were terrorists and which were not. In the 1980s we began to differentiate between terrorists and those with legitimate political aspirations" (Al-Sijill Al-Qawmi "The National Register, 2002).

At the level of the EU, "the presence at secondary meetings of the Barcelona Process by the Libyan ambassador to the Union seemed to have become the norm, even before Kofi Annan would recommend the lifting of the UN sanctions on 2 July 1999, after his satisfactory visit to Libya in June (Ali, 2004:15). This was the prelude to the actual lifting of the sanctions in September, a month in which EU-Libyan relations would seriously start. As a result of these events, the first 5+5 Euro-Mediterranean dialogue summit, held in Tunisia in December 2003 between five countries from Arab Magherb Union (Algeria, Libya, Morocco, Tunisia, and Mauritania) and five countries from south of European Union (Spain, France, Italy, Portugal and Malta). It presented a unique approach for Libya to be reintegrated with the regional countries and contributed to end its isolation.

However, UK business would join in with its European counterparts in their increased commercial warming up towards Libya. One of the most recent visits of a high-ranking British government minister Michael O'Brian to Libya in summer of 2002 has further improved both political and economic relations between the two countries. As reported by Foreign and Commonwealth Office (FCO) on 21, April 2004 that:

> “Mr. O'Brien welcomed Colonel Qathufi's announcement on the abolition of the special revolutionary courts. The UK continues to have a number of concerns about Libya's human rights record. These positive statements on human rights are welcome. We look forward to seeing them delivered in practice in the coming months.” Libyan Foreign Minister Shalgam told Mr. O'Brien that Colonel Qathufi was serious about changing the legal system, describing the April 19 announcement as “a revolution in our approach on law”. He confirmed that Libya intended to sign international agreements against torture, and to improve the behavior of the Libyan police. The special revolutionary courts have repeatedly been criticized by Human Rights groups like Amnesty International. Colonel Qathufi said he will abolish them and introduce “a normal criminal law procedure”. Colonel Qathufi also said he would end the arrest of people without a warrant”.

Furthermore, on 31, March 2004 British Prime Minister Tony Blair has become the first British prime minister to visit Libya in more than sixty years. Obviously “the major purpose of Blair’s visit to Libya was to establish economic, commercial and political relations with a country that has been isolated for quite some time”. (BBC online, 2004:1). After shaking hands with Colonel Qathufi at the start of the historic talks, the prime minister said:

> “There was real hope for a "new relationship” people should not forget the past, they should move beyond it, however, Libya's renunciation of weapons of mass destruction was extraordinary change. The world is changing and we have got to do everything we possibly can to tackle the security threat that faces us, I had been struck by how Colonel Qauthfi wanted to make common cause with us against al-Qaeda, extremists and terrorism. Trust on both sides will take time to establish. But the signs are better than they have been for many years. And the future prize in terms of security not just of this region but the wider world - indeed our own country is great." (BBC online, 2004).

As Mr. Blair met Qathufi, it was announced Anglo-Dutch oil giant Shell had signed a deal worth up to £550 million for gas exploration rights off the Libyan coast (op. cit). It was the first visit by a British prime minister since 1943 and comes after US Assistant Secretary of State William Burns who became the most senior American to visit since the 1969 revolution, this is an absolutely pivotal moment in the history of the region, possibly even in the history of the war against terrorism.

Libyan-French relations, meanwhile, were improved by Libya's payment of $34 million compensation to the victims of a UTA plane blown up over Niger in 1989. On 9 January 2004, Libya ultimately agreed to increase this compensation to $170 million. In this respect, "French foreign minister Dominique de Villepin urged Libya to "implement without delay" its commitment to compensating families of victims of the bombing of a French airliner in 1989". (CNN, December 20, 2003).

Furthermore, On 3 September 2004, Libya signed a deal on Friday to pay $35 million in compensation to more than 160 victims of a Berlin nightclub bombing in 1986, taking another major step toward ending its international isolation. The agreement is likely to further improve relations between Libya and the European Union, was signed by the head of the Libyan leader Qathufi's charity foundation and German lawyers representing the victims. "In its first reaction to the deal, the German government said it opened the way for Chancellor Gerhard Schroeder to visit Libya. Germany said it was ready to help modernise the Libyan economy" (BBC, 3 August, 2004).

Libyan-European rapprochement thus far has led also to an increase in oil trade between the two sides and the creation of investment opportunities in Libya. In this context, I would argue that Libya's economy needs the benefits of trade with the West in order to sustain itself and remain a competitive destination for international investment. Although a number of economic reforms have been implemented, much more is needed especially the legal framework for effective economic reform in Libya requires profound and basic changes to be introduced to the rules organising the economic activities.

7.2.4 New Relations with the U.S.

Libya has made continued efforts to improve its tense relations with the US since announcing its support for Washington's anti-terrorism policy following the events of 11 September 2001. In an interview with Newsweek magazine on 13 January 2003, for example, the Libyan leader "affirmed that there was security cooperation between Libya and United States to eradicate the Al-Qaeda group" (Ali,2004:7).

For Libya, positive relations with the United States not only equate too much needed American financial and technological investment; almost as importantly they translate into the imprimatur of acceptance into the international community after years in the diplomatic wilderness (Henderson, 2002). Most significantly, an end to the U.S. sanctions would allow Libya to seek badly needed access to international financial organizations.

In addition, Libya adopted a cautious stance vis-à-vis the last U.S. war on Iraq, sufficing with general warnings against the regional chaos the war could cause and calling for mediation between the US and Iraqi presidents. Over the course of this period, Qathufi has repeatedly said that his conflict with the U.S. is over and expressed his desire to resume relations with US. In an interview with Time magazine on 10 August 2003, Qathufi declared:

> "We have no interest in being hostile against a superpower like America. We wish to have good relations because we will benefit from that. To be at loggerheads with America, we shall lose" (Quoted from Ali, 2004).

Despite the long history of animosity between Libya and the US, United States rewarded Libya for its efforts by not including it in President George W. Bush's "axis of evil," along with Iran, Iraq under Saddam Hussein and North Korea. However, the U.S. linked the resumption of relations with Libya to reform of the country's political system and destruction of its weapons of mass destruction, as stated in a White House statement on 15 September 2003, which, while approving of the lifting of international sanctions, made it clear that Washington's own sanctions would remain in place. Washington's two demands were repeated in the secretary of state's reports in 2001, 2002 and 2003, although these acknowledged Libya's efforts, particularly in ending support for terrorist groups.

Arguably, Simons (2003:139) discussed that "the Bush administration was reportedly orchestrating a thaw with Libya, as a part of the so-called 'War against terrorism' a good paradox, Qathufi had declared his support for the American case and Qathufi commented that every responsible U.N. member should combat terrorism".

The announcement by Libyan Secretary-General of The General People's Committee for Foreign Liaison and International Cooperation on 19 December 2003 that the country would eliminate its weapons of mass destruction shows how serious it is to remove any obstacles to the restoration of its relations with United States.

This was followed by the US National Security Council announcing on 26 February 2004 the lifting of travel restrictions to Libya for US citizens. The Security Council resolution, described by a spokesman as a show of appreciation and acknowledgement of Libya's tangible steps in the area of eliminating its weapons of mass destruction, also has considerable implications for Libya in terms of economic growth, as it allows US companies to re-enter the country alongside their European counterparts.

7.2.5 Disarmament of Weapons of Mass Destruction

Libya's decision to surrender any internationally banned weapons of mass destruction can be seen as part of a larger shift in the country's behaviour. Secretary-General of The General People's Committee for Foreign Liaison and International Cooperation noted at the time that the disarmament decision was the outcome of several meetings with experts from Britain and the US. It backed up its position with assertions that the arms race does not serve its security nor that of the region but rather contradicts its desire to live in a peaceful and secure world, and also called for others to follow in its footsteps, starting with the Middle East region, with no exceptions.

Although the Libyan leader confirmed that the circumstances of announcing the breakthrough may not be suitable as a result of the situation in Iraq and elsewhere, "the British prime minister, Tony Blair, and the American president, George Bush, insisted that the time had come to announce the dismantlement of Libya's WMDP, for this will be considered a success for the Libyan, American and British diplomacy" (Ali, 2004:3).

Within the framework of Libya's new foreign policy comes a revised approach to the use of non-conventional military power, which Libya had previously used intensively to achieve its objectives abroad. During a visit to Mali two days before the U.S. invasion of Iraq, Qathufi announced a universal opposition to weapons of mass destruction and called for all countries to eliminate them, starting with the US. The Libyan leader has also said that

Libya will play an international role in creating a world free of weapons of mass destruction.

The relation between the two countries have apparently been improved, On 28 June, 2004 Assistant Secretary of State William J. Burns formally opened a U.S. liaison office in the Libyan capital, Tripoli, marking the highest-level U.S. diplomatic presence in the country since 1980. The announcement was made after meetings between top State Department officials and Libyan leader. The U.S. Libyan relationship has been steadily improving since Qathufi promise in December 2003 to dismantle the country's weapons of mass destruction, eliminate its longer-range missile programs and end its cooperation with terrorists.

7.3 The Predicament of Oil and its effect on the Libyan economy

With the further discovery of oil, as shown in Table (7.1), the oil reserves increased from 25 billion barrels in 1977 to approximately 29.5 million barrels in 1998. As a result of the sanctions and embargoes upon it, especially between 1992-1999, foreign involvement in Libya was severely reduced. Access to oil industry equipment and technology was restricted.

Table 7.1: Crude oil Reserve and Production in Libya (Billion Barrels)

	1977	1987	1996	2000
Reserve	25	22	29.5	36.0
Annual production	0.550	0.350	0.511	0.520
Depletion rate (years)	45	62	57	69

Source: OPEC Annual Statistical Bulletin, various issue

The oil market is extremely unstable, as changes in the world demand obligate constant variation on the world supply, such variations have serious short term effects on the Libyan economy due to high dependency on the oil revenues. Therefore, the volume of Libyan imports of various goods are affected due to its almost complete dependence on the oil earning "rentier economy" in contrast to other OPEC members as table (7.2) shows:

Table 7.2: Dependency of OPEC members' countries on oil exports

Country	Value of oil exports/Total exports
Libya	97.26%
Kuwait	92.40%
Iran	89.00%
Saudi Arabia	86.24%
Nigeria	82.52%
Iraq	79.70%
Venezuela	74.06%
Qatar	67.96%
Algeria	61.62%
United Arab Emirates	54.13%
Indonesia	16.35%

Source: Source: OPEC Annual Statistical Bulletin, (2002).

It was clear that Libya's economy was hurt even more by the low oil prices of the late 1980s and much of the 1990s. The low oil prices meant that revenue intended for government infrastructure projects did not come in as abundantly as expected, forcing the curtailing or discontinuing of several development projects. The prohibition on flights into and out of Libya and the ban on certain imports also combined with the low oil prices and economic mismanagement to cause a steady decline in many aspects of Libyan economic life.

The crash in oil prices that began in late 1997 did, however, combine with UN and US embargo sanctions to make things worse. It reduced oil revenues for 1998 to $5,250 million, nearly 35% less than the original forecast of $8,073 million due to mainly the prohibited of oil equipments and the decreasing of multinational investment companies in the oil industry.

This forced Libya to cuts its budget. General secretariat of Finance Mohammed Beit al-Mal reported on December 11, 1998 that the government had been forced to cut expenditure on investment projects by 80% excluding those for the oil industry and some power projects, in order to cover salaries for the country's public sector employees. The government expected these spending cuts to limit the deficit to $1,444 million in 1998 (EIU, 1998).

This situation changed after the recovery of oil prices in the spring of 1999, and the suspension of UN sanctions. Libya joined other oil exporting states in cutting production, and pledged to cut 96,000 bbl/d from its previous quota. This amounted to a total pledged cut of 226,000 bbl/d from Libya's February 1998 production level (EIU, 1999).

Given the rebound in oil prices and the lifting of UN sanctions, Libya's macroeconomic picture may continue to improve, moreover, its short-term economic outlook. "As a result of the lifting of UN sanctions, Libya has been able to invite European and US oil firms to return to Libya, which also has a much better prospect of receiving foreign help in its attempts at diversifying the country's economy away from oil and toward natural gas, and has kept government spending under tight control" (IMF,2003:5-6).

Due to the expansion in the production of oil refineries, refined exports increased from 132 thousand barrels/d in 1996 to 241 thousands barrels/d in 2003. In addition, the exports of natural gas decreased from 1490 million cubic meter in 1996 to 920 million cubic meter in 2003, as result of the country's policy utilizing natural generate electricity power and the factories operation instead of oil, and increases of local consumption. Table (7.3) shows the Libyan crude oil, refinery and gas indicators from 1996-2003.

Table 7.3: Crude oil, Refinery and Gas indicators: Libya 1996-2003

	1996	1997	1999	2001	2003
Crude oil (mb/d)	1.360	1.395	1.287	1.323	1.440
Oil consumption (mb/d)	0.174	0.174	0.168	0.160	0.172
Oil exports (mb/d)	1.120	1.115	0.991	0.987	1.200
Refined exports (mb/d)	0.132	0.147	0.201	0.225	0.242
Natural gas exports (mcm)	1490	1120	0910	0770	0920

Source: Arab Oil and Gas magazine, February 2003

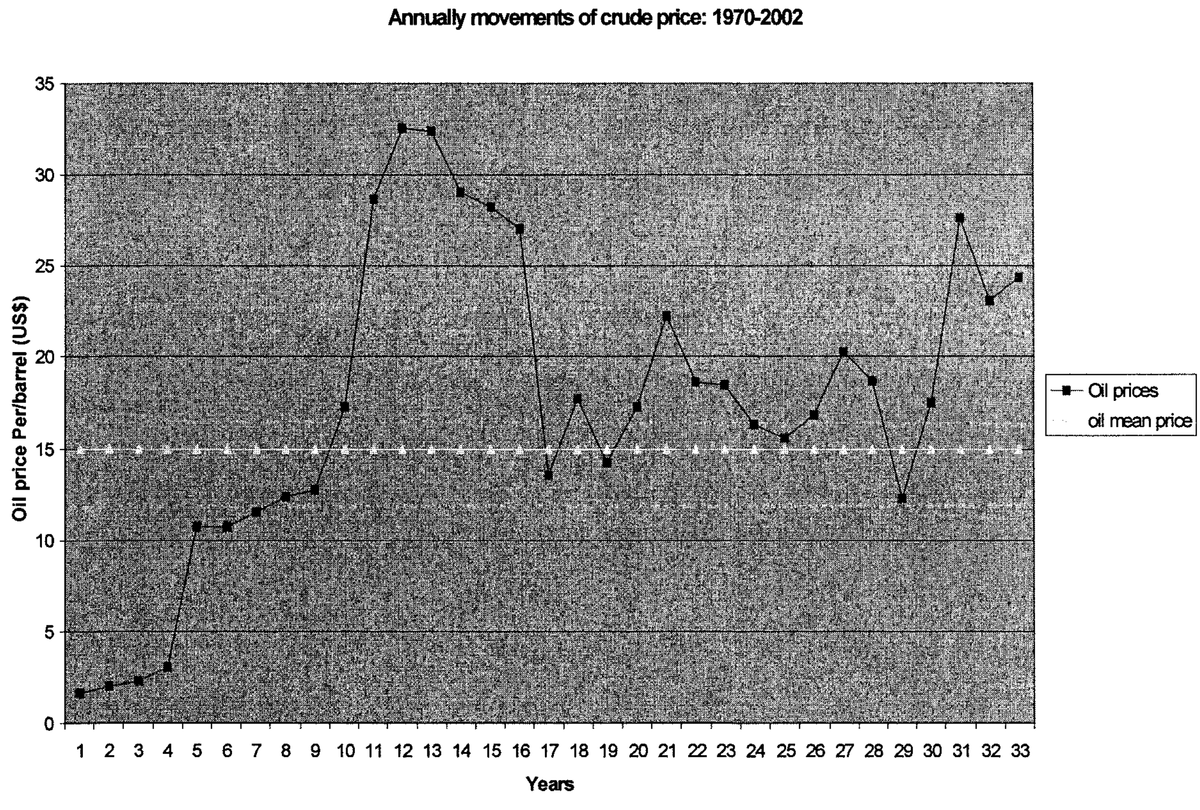
The impacts of oil on the local states demonstrated similarities and subtle but important variation. In Libya, where oil acted for the exclusive income of the country, its impact on economic development was powerful and more detrimental to the budget ability to face a severe fiscal crisis.

As stated by Vandewalle (1998) "in the beginning of 1998, as a distributive state, Libya does not rely on domestic surplus. Superficially, in some aspects financially autonomous and strong during the oil booms. Domestically as well, the state had attempted to ensure a more equitable distribution of wealth, thus, oil revenues had been channeled into Agricultural and industrial projects in order to provide employment and lessen dependence upon imports and foreign labour. However, the decline in oil revenues and consequent slowdown and the results were less promising than had been expected, prices diminished the financial resources that could be devoted to continued economic and foreign policy initiatives".

Consequently, the volatility in oil prices in mid 1980s and 1990s has affected negatively on GDP. Since nearly 90% of the budget is financed by oil revenues, changes in oil prices has led to a substantial and a rather acute budget deficit during the period 1994-2001 of 4% of

GDP. A significant improvement compared to that of the period 1978-1992 when the budget registered deficits in the most years of that period, and the deficit averaged out around 12% of GDP per year. In attempt to decrease reliance on oil revenues, in 2001 Libya has begun removing subsidies on various domestic products and public services. Figure (7.1) shows the movements of crude oil price during1970-2002.

Figure 7.1: Movements of Crude Oil Price: 1970-2002



Source: Arab oil $ Gas Magazine, Arab research Center, Statistics, OPEC Oil, February 2003:26

7.4 The Reality of the Public Sector and the Associated Problems that Urge Privatisation

The public sector institutions and organisations suffer from chronic financial, economic and managerial problems. However, these are recurring problems and, according to the annual report of the General People's Committee for People's Control and Follow up (2002:23), these problems can be summarised as follows:

1- Administrative and finance negligence, including fraud, cronyism and nepotism, bribery and other financial and administrative improprieties such as negligence of duties among some of the managers of public organisations.
2- The poor performance of some organisations with respect to public services.
3- Deteriorating production levels and failure to make use of full production potentialities.
4- The absolute interest about public assets and resources, and the failure of authority and organisations to enforce the power of the law in calling their juniors to account, in addition to the lack of cooperation from state offices in tackling the economic and administrative malpractices.
5- The increasing size of the workforce.
6- The accumulation of huge stocks of high-cost and low quality products.
7- Huge production losses as a result of work discontinuity and mismanagement.
8- The inactivity shown by most companies in retrieving the money owed to them by customers.
9- Delays in closing budgets and failure to use scientific methods for budget estimates.
10- Most public sector companies fail to pay their staff on time. Moreover the workforce is ineffective, inefficient and under productive.

Generally speaking, the private sector might be more capable than the public sector of sorting out these structural problems. Although the Libyan state has taken several steps in order to give the private sector more opportunities to play a greater role in economic activities, many obstacles are still encountered in the implementation of the privatisation programme.

7.4.1 Field Survey of Obstacles to the Success of Privatisation

Privatisation programmes the world over are always prone to a number of difficulties that are likely to interrupt the progress of such programmes limiting their achievements. However, a number of studies have discussed privatisation in Libya, highlighting several of these difficulties (see Hudanah, 2004; El Feituri, 2004; Mogherbi,2004). However, according to these authors the most demanding of these problems are:

The problem of the surplus workforce.

The accumulated debts and commitments of the companies and factories recommended for privatisation.

The lack of an organised and well established stock market.

The lacklustre performance of public sector projects.

The restriction to limited methods of privatisation.

Yet in one study (Salam, 2003:8-10) involving the obstacles to foreign investment in Libya, it was revealed that the most challenging problems that face foreign investors in Libya are the following:

1- Poor infrastructure.
2- The poor local management

3- Insufficient information.
4- The lack of a reliable stock market.
5- Insecurity.
6- Rampant administrative corruption.

However, a recent memo presented by the Corporation for Investment (2004:15), involving the appropriate policies and legislations that will encourage foreign investment in Libya, has emphasised the existence of certain negativities and difficulties in the context of foreign investment. The memo confirmed that stable and clear economic policies are becoming indispensable. These policies should incorporate detailed financial and monetary policies, developing infrastructure, improvement of banking services, stability in the management system, the establishment of a reliable stock market and also the development of legislation relevant to the private sector-particularly laws and regulations related to investment.

The questions asked in the questionnaire were developed from the above discussions, and were designed to survey a small sample of Libyan businessmen who are running the Libyan businessmen association which advocates the privatisation programme. The questionnaire also aimed to survey a number of officials working at the Libyan production union who are opponents of privatisation. The purpose of these questionnaires was to provide further insight into the perspective of the respondents.

The questions focused specifically on 20 selected obstacles, which had seemingly delayed the implementation of the privatisation programme so far, of 40 questionnaire forms initially distributed, only 20 were returned. The results from responses to the questionnaires which are presented in table (7.4), were analysed and statistically tested using the Statistical

Package for Social Science (SPSS). Then, based on the analysis and interpretation of the results these obstacles are asked according to priority. All figures of the SPSS analysis can be seen in Appendix D.

Table 7.4: The Obstacles of the Privatisation of the Libyan Economy Listed According to Priority

Obstacle Cod.	Obstacles	Disagree %	Agree %
LMPR	The lack of clear cut monetary policies, restrictions on credit which disrupts privatisation.	-	100
DISFPP	The lack of reliable infrastructure such as transportation, telecommunications and other important public services hindering private projects	5	95
LSM	The lack of a stock market for shares and bonds, which will not assist the privatisation of the public sector	5	95
TEP	The existing tax and custom laws do not encourage the progress of private businesses.	10	90
RSCPN	Rampant social ailments such as bribery, nepotism and mediation.	10	90
LTFIEX	The lack of transparency and freedom in information exchange regarding the economic realities and information through IT and telecommunications systems.	15	85
LDLTP	The lack of well designed long-term plans and a suitable approved administrative strategy that will encourage privatisation	15	85
CRP	The complicated existing routine procedures for the transfer of ownership of the public sector companies to the private sector.	20	80
FLP	The relevant laws and procedures for privatisation are falling behind and will likely discourage investors.	20	80
LSPC	Inaction and lack of seriousness in facing the potential challenges involved in the privatisation process.	20	80
INADVD	The inadequacy of an updated database regarding the chances and requirements of private investments.	25	75
LLAS	The lack of legal assurances for the stability and continuity of the process and that the change is for good.	25	75
LCFL	The lack of credit facilities and loans to assist the private sector to take control of the recommended projects.	25	75
NACP	The existence of numerous administrative and control agencies, which will work against the progress of privatisation.	25	75
NSP	The widespread negative social perception of private businesses and those who are involved in them.	25	75
LWSC	The lack of workshops, symposiums and conferences that seek to sort out problems and allow the exchange of expertise.	30	70
SLM	The existence of small local markets, which will not favour privatisation unless new opportunities for export arise.	35	65
LCSLM	The lack of comprehensive studies on the local markets, including consumer requirements, will not encourage private ownership.	50	50
INADME	The inadequacy managerial expertise capable of taking responsibility for the success of the privatisation process through the transfer of public companies to private companies under the control of an efficient and active management.	55	45
PIRR	The potential international risks and restrictions which are likely to limit the progress of the economy towards privatisation.	65	35

7.4.2 Results of the Survey

In theoretical terms, the privatisation of the Libyan economy still faces a number of difficulties and obstacles. These obstacles and difficulties are always there, whether privatisation takes the limited form of the transfer of ownership from the public to the private sector, or in the wider form that involves the sponsorship and encouragement of the private sector to be able to play a greater role in economic activities and to contribute towards the national economy's development. However, the most challenging problems facing the privatisation of the public sector in Libya are the following:

1- The surplus workforce; mainly managerial and service non-technical jobs.
2- Insufficient local funding and limited capital.
3- The lack of a well organised money market.

The private sector also confronts several further problems such as:

1- The dreadful experience of recent policies, which created conditions of distrust.
2- The mismanagement of many illegal practices.
3- Economic recession
4- Poor infrastructure.

Thus far, a survey of a sample of businessmen and officials working in the Libyan production union has showed that the respondents are well aware of the different types of obstacles that might limit the success of the privatisation of the Libyan economy. However, of the proposed obstacles, all respondents agreed that 17 of the 20 have a real negative impact on privatisation in general and the privatisation of the public sector in particular. The most significant of these obstacles are the following:

1- The lack of clear monetary policies, and restrictions made on foreign exchange, which will not assist privatisation. This constitutes one of the most serious obstacles that face the privatisation of the Libyan economy.

2- Poor infrastructure, including transport, telecommunications, and other public services that will encourage investment in private projects. This obstacle is generally related to the natural environment.

3- The lack of a local stock exchange and money market, through shares which can be sold or bought. The lack of this market will not favour the privatisation of the public sector. This obstacle also constitutes one of the most serious challenges to privatisation.

4- Rampant social ailments, such as bribery, cronyism and administrative and economic corruption, also constitute some of the general obstacles that have a social impact on privatisation and a number of other economic activities.

5- The laws and regulations related to customs and tax do not encourage the development of private organisations and projects. This obstacle is related to the legal situation, and has a worse impact on privatisation in Libya as it tends to interrupt the progress of the private sector.

6- The lack of transparency and freedom in the exchange of economic information using IT and telecommunications systems. This information-related obstacle has negative effects on the privatisation efforts.

7.5 Reactivating the Privatisation Programme (Privatisation in Action)

The Libyan state has currently been (from mid-2002 until 2004) making efforts to free up its economy in order to attract a ready stream of western investment into the local market, and there is now a cautious openness towards the previously restricted private sector. The government devaluation of the Libyan dinar in 2002 aimed to liberate the national economy, attract more foreign investment and rationalise the use of hard currency reserves. In a meeting with the General People's Conference on 13 June 2003, the Libyan leader instigated the privatisation of the public sector, including oil and banking sectors, and for the application of popular capitalism as represented by companies owned by Libyans, which have the right to use the expertise of foreign experts. He said:

> "We must revoke the public sector; I would like to offer you the ideological reason that the public sector should no longer exist. In fact, the public sector needs officials who are responsible for poor people. This sector did not succeed in achieving its objectives. One of the major reasons behind that is that there are no potential, ethical and patriotic officers to run the public sector. We recognised that the Soviet Union and Eastern Europe had collapsed. I must also say that the economy can accept no compliments and sentiments. Overall, there are many disadvantages of the public sector, therefore, we must revoke it from the structure of our economy, not just because of its disadvantages in Libya but all over the world. The experiment of the public sector has existed for seventy years and we hoped that production could accumulate by adopting socialism; the outcome is the United States takeover of all the world. Also, all members of staff of the General People's Conference and all Libyans should understand these changes" (AL-Sijlll A-Qammi "National Register", 2003-2004).

Arguably, the process of economic reform and privatisation has been the subject of a strong ideological opposition, particularly from the Revolutionary Committees. This opposition has clearly been expressed by the Zahf Al-Akhdar news paper, in publishing a number of articles opposing the restructuring of the economy, describing the process as a return to the old exploitative capitalism and demanding devotion to the socialist system as prescribed by the Third Universal Theory.

A decision of the General People's Congress of December 2004 cancelled the decree of the Secretary-General (Prime-Minister) No (158) of 2004 privatising the Libyan port firm, this clearly refers to the conflict between the technocrats who advocate privatisation and wish to implement the privatisation programme in order to activate the private sector to play a greater role in economic activities, and the Revolutionary Committees who are against this process, describing the decree of Secretary-General as "dismantling of the socialist orientations and against the Basic People's Congress decisions. This decree would certainly have a negative effect on employees jobs" (Zahf Al-Akhdar, 2004).

I would argue that since the social-economic plans started in 1973, the development plans have achieved numerous successes; transforming the Libyan economy from a primitive economy to a developing one. However, these plans have always given priority to meeting social requirements, including the satisfaction of consumer needs. These development plans, nonetheless, have made significant achievements with regard to the infrastructure and the fair distribution of wealth, even though the sustainability of economic growth has remained under the influence of both international factors such as the fluctuations in oil prices and internal factors such as the nature of the powers controlling the macro-economy, the allocation of resources and the performance of public enterprises at the micro level.

Despite the role played by the public sector in the Libyan economy during the last three decades (1970-2000), yet its progress has been associated with a number of repercussions, which should be discussed for the purpose of rectifying its adverse effects. These effects include:

- The low returns of investment in the public sector projects, and the negative impact of that fact on the local funding of the national budgets, rendering these budgets completely dependent on future of the oil revenues. For example, the estimated relative contribution of the whole productive sector in the running budget for 2003 was 4.7% and for 2004 was 2.5% (General People's Conference, 2003, 2004: 3-7).

- The complete dependence for the continuation of public projects on state sponsorship for many years has exhausted the Libyan economy, transforming public projects into monopolising entities with no real economic capabilities.

- The sponsorship policies--whether related to the exchange rates (preferential exchange rates), finance (public investment expenditure) or commerce (custom fees and quantitative restrictions)--have done very little to improve production and have proved incapable of foreign marketing (even in projects allocated for export items). These policies have largely failed to persuade consumers to buy local products instead of imported ones.

- Failure of the various development plans to achieve economic growth, as a result of declining oil revenues and the consequent deterioration in foreign exchange earnings. This has led to the suspension or cancellation of many projects foreseen in the investment plans of the eighties and nineties, moreover, the failure of the state budget to meet the requirements of investment. However, the rate of execution of the investment plans has been estimated at 57.4% for the period 1986–97 (op.cit: 9).

- Failure to provide the running requirements to meet the needs of productive activities, which include the high cost of import components. This has either led to the closing down of already established projects or otherwise a decrease in their operating capacity. However, the rate of operation has amounted to only 41.2% of the total capacity, incurring more losses for the state budget in sponsoring these projects.

Nonetheless, inefficiency has been the main feature of the public sector with regard to investment and production (Central Bank of Libya, 2002).

- The decline of spending on investment has had its multiple negative effects on economic performance and the subsequent creation of new job opportunities. However, the lack of contribution by the private sector has made things even worse. If private sector contribution was available, it would be likely to compensate for the limited state resources for investment.

- The high rates of final consumption at both public and private levels. Public expenditure during the 1970s and 1980s has been based on the principle of sponsorships in all its forms, such as in the pricing of public goods and services and the adoption of welfare policies that tend to offer financial assistance. All this has made the deficit even worse at the expense of investment projects, burdening these projects with the impossible task of maintaining the balance in the general budget. This has negative effects on long-term economic growth, where in 1997 final consumption related to the local oil product has been around 396 %--i.e. four times the local oil product (Central Bank of Libya, 2002:13).

However, the state budget has also failed to meet the requirements of public consumption, as the ratio of this consumption has retreated from 40 % of the total final consumption in 1983 to 22.6 % in 2002. This has resulted in the malfunctioning of public institutions and their failure to create new jobs both in the service and productive sectors, and more specifically the "failure to achieve any significant improvements in per capita of GDP at fixed costs, which has shown an average LD 2618 and LD 2649 in 1999 and 2002 respectively. Consequently unemployment has increased from around 5.4 % in 1998 to 10.4 % in 2001"(General People's Conference, 2003:21).

The question is whether an economy with such characteristics can ever compete in the international arena; given the challenges of globalisation, and the agreements for international partnership and cooperation between individual countries. Therefore, the introduction of comprehensive reforms, the rectification of economic defects and structural flaws, improvements in the general environment in order to readjust to the global economy, an increase in private investment and improvements in the performance of current investment all become urgent necessities.

7.5.1 The Commencement of Implementing the Privatisation Programme

As mentioned in chapters four and five, the Libyan state attempted to create the legislative framework and took several measures to implement the privatisation of several proposed public sector enterprises. This involves three stages and each stage has its own characteristics and dynamics.

7.5.1.1 The Role of the State in the Subsequent Stage

As noted in chapter three, it is widely recognised that the state in underdeveloped countries has played an important role in launching structural change and the industrial policy of governemnts, as is well known have played a prominent entrepreneurial role.

It should be pointed out that privatisation does not necessarily mean that the government can simply pull out of responsibility. Except for the Pes set up for pure revenue reasons (e.g., tourist hotel, tobacco monopoly), most of the now-privatised PEs will have to be put under regulation, since they either possess market power (e.g., monopoly or oligopoly) or generate (positive and negative) externalities (Chang, 2003:231).

In the Libyan case, the private sector is likely to play a greater role with regard to economic activities in the next stage. However, this role should not cancel out the role of the state in providing guidance and provision to the private sector for the sake of the better performance that will pave the way for economic stability.

Therefore, the role of the state in the next period should feature the following activities:

- The transformation of the public sector to the private sector and the related policies and provisions that will follow, aiming at resolving the problems associated with the transformation process:
- Encouraging new investment by the private sector with the purpose of creating new jobs to absorb the national workforce. Maintaining the economic balance and related policies involves protection, supervision and control. In this sense, Mogherbi (2004: 25) argues that:

> "In the case of Libya, the attempts for economic reform and privatisation imply that the role of the state should be greater and more profound rather than withdrawing altogether from the scene giving up, its commitments for employment, education, and healthcare. Besides the above mentioned necessities featuring the need for the state in keeping law and order, the driving and organisation of economic activities and the upgrading of institutional capabilities in all sectors, and the need for a high level of transparency and accountability. The unique status of the state in Libya is as the owner of the major source of wealth (oil), and given the fact that its past policies have rendered the private sector incapable of implementing the large tasks that are prerequisites for the development processes, besides its responsibility in re-establishing the infrastructure in all fields including health, education, the economy, housing, utilities, telecommunications and transport. All this dictates that the state has to allocate all its oil resources to fulfil those tasks, in addition assuming the role of organising and encouraging the economic reform and privatisation policies together with the diversification of

the economic base. This emphasises the significance of the role of the state and tends to give the state its legitimacy and acceptance".

7.5.1.2 The Transformation of the Public Sector to the Private Sector

This step involves the privatisation of the units of production with regard to ownership, employment and the management of those units. Nonetheless, this move will be greatly enhanced by the review of legislations that have already existed since 2002, with special emphasis on those issued in 2004. In the second half of 2004, however, the state undertook a plan involving the transfer of 361 economic units in several sectors, such as manufacturing, agriculture and livestock and marine resources. This privatisation would take place in the following three stages, as table (7.4) shows:

Table 7.4: The stages of transforming the public economic units

The Activity	The number of units of first stage	The number of units of second stage	The number of units of third stage	The Total
Manufacture	146	41	18	205
Agricultural	28	4	24	65
Livestock	71	0	11	82
Marin	16	1	1	18
The total	261	46	54	361

Source: The General People's Committee report, 2003.

7.5.1.2.1 The First Stage

It was intended to complete the transfer of 261 productive units within 27 months, i.e. by the end of 2005, according to the approved plan. However, the companies recommended for privatisation in the first stage have been subdivided into three categories with regard to their efficiency and viability. Consequently the state has realised that 192 of the recommended units are viable provided that they receive more attention from the banking system and social fund, also from other public offices such as the tax and customs departments, with moreover, the entitlement to the electric power firm. However, both the budget of the state and Local Production Sponsorship Fund (LPSF) will eventually be committed to paying the arrears of these units in respect of individual cases, where the total debts of these companies are estimated at LD 549 million.

Moreover, the programme in its first phase has attempted to sort out the problems related to the surplus workforce. Yet, one of the potential solutions to the problem has involved providing loans for voluntary redundancies. Compulsory redundancies, on the other hand, will be treated in accordance with Act No (269) of 2001, which offers them a renewable full year wage as stipulated by article (2) of the executive regulations of the act. However, the final solution for this group might require early voluntary retirement.

The programme in its first stage has also reviewed the methods related to the assessment of the companies and economic units that are in question with regard to the potential owners being cooperatives, stock companies or a joint investment involving foreign investors. The second category of companies recommended for privatisation in the first stage, include 52 irremediable economic units engaging in economic activities employing around 4000 workers, and these are either to be put on sale or to be scrapped altogether (Elfeituri, 2004: 14).

As to the third group of firms, they include the general administrations of the companies that have already been transferred to the custody of the Local Production Sponsorship Fund (LPSF). These include 11 administrations of public firms employing around 3500 persons in total. However, all these companies with their financial commitments are recommended for the custody of the LPSF. Nonetheless, it is worth mentioning that these companies are being heavily in debt to the banking system and other donors, and therefore it is the Bank of Libya together with the LPSF that should be held accountable for sorting out these debts. In practice, decree No 100 of 2004 has been issued by General People's Committee putting 126 projects of the first stage for privatisation with a total value of LD 75,811,422. Table (7.5) indicates the distribution of public economic units that will be privatised:

Table 7.5: The distribution of public economic units targeted by General People's Committee decree No (100) of 2004 and the form of the privatisation

No	EL- Shabbeat "Municipalities"	Stock Market Firms	Tasharukiyt "Small-Firms"	Total	The Total of Assets value
1	Tripoli	9	4	13	5,076,620
2	Tajjora-	3	4	7	3,171,412
3	Trhona-Mselta	1	3	4	7,273,679
4	Benghazi	9	-	9	18,136,541
5	El Marg	-	2	2	402,921
6	Misurata	2	2	4	8,796,214
7	El Margab	3	10	13	5,240,764
8	Beny Waled	-	3	3	644,629
9	Derna	-	2	2	490,519
10	Green Mountain	-	3	3	2,335,691
11	Tobruk	-	4	4	463,944
12	El Gouba	-	2	2	520,254
13	Sirte	1	6	7	1,725,376
14	EL Gufra	-	1	1	48,228
15	Zawia	1	1	2	1,961,425
16	Nekkat ELKhoms	1	11	12	7,143,061
17	Sibrata and Srman	-	2	2	1,828,953
18	Sabha	2	4	6	3,234,584
19	Murzg	-	1	1	449,567
20	Wady EL Shatee	-	1	1	319,046
21	Wady EL Haya	2	2	-	535,925
22	EL Geffra	1	8	9	6,832,925
23	Gherian	2	5	7	11,918,201
24	Yefren	-	3	3	695,339
25	Ghadamis	-	4	4	865,088
26	Ajdabiya	-	2	2	1,970,751
27	Nalut	-	1	1	502,255
The Total		35	91	126	75,811,422
The verage of unit value		**1,456,619**	**272,855**		

Source: The General People's Committee Report, 2004

7.5.1.2.2 The Second Stage

This stage requires the transfer of 46 productive units within a period of 3 years, i.e. from 1.7.2004 to 31.6.2007. Nonetheless, the first years overlap with the first stage, given the fact that the companies involved include moderate and large size companies. Accordingly it has been recommended that 30 of these companies should become stock companies, 14 of them should go toward partnership involving foreign investors, whereas the remaining two companies have already been under state control in partnership with foreign investors, implying that in the event of privatisation the state share will go toward the private sector.

7.5.1.2.3 The Third Stage

This includes all the large firms which are difficult to sell to the private sector given both their large size and the large capital involved. Therefore these companies need to be developed through the injection of more capital. They include 54 firms all of which will be on offer for partnership with foreign investors. However, the deadline for the transfer of these companies to the foreign investment is 3 years, starting from 1.1.2004 until 31.12.2006, and then the state share will be sold to national investors (such as the workforces of these companies, the management staff or even the private sector) within 2 years i.e. from 1.1.2007 until 31.12.2008. The programme has needed a number of steps and procedures for implementation, emphasising that (Elfeituri, 2004,10-16):

- The projects will be put for transfer of ownership without any liabilities, and that the Manufacturing Sponsorship Fund is committed to this principle.
- Attempts should be made to sort out the problem of excess labour, using methods such as motivation and sponsorship to achieve this.

However, the foundation of the local Manufacture Sponsorship Fund will play a major role in the process of the transfer of ownership, besides other administrative organisations such as the Corporation for Ownership, the Committees for Supervision and Follow up of the Peoples' Committees and the Supreme Committee for Supervision.

The Manufacture Sponsorship Fund, in marketing the projects proposed for transfer, bears all the liabilities that have burdened these projects. Nonetheless, "this fund should not be deemed as means of government sponsorship that would produce more distortion" (Dager, 2004,14). Contrary to that, its finances would render it capable of coping with the motivation requirements of privatisation. The estimated finances of the fund for 2004 are as follows (op.cit, 19):

-1% returns from imported goods (LD 25 million).

- LD 10 on cement products (LD 39 million).
- Transformation budget (LD 50 million)
- Unsold stock of the recommended projects (LD 8 million).
- This makes a total of LD 122 million to cover:
- Loans, credit facilities and other financial obligations of the utilities.
- Any financial commitments towards the importers.
- Outstanding payments to producers.
- Insurance payments.
- Wages.

This would be completed concurrently with annual phases of the programmes. However, it is crucial to note that the surplus workforce remains the major problem that needs to be resolved. Procedures such as early retirement, giving out loans, and the advance payment for a full year and the productivity fund are not working and are not sufficient. Yet, the major problem lies with the huge size of the workforce and the lack of a clear cut insurance programme initiated by either the banking system or the state to sponsor and motivate private economic activities. This will overcome the problem of insufficient savings, which has a great bearing on the surplus workforce, and the transfer of this force to the private sector. This will also affect the process of establishing the private sector, which constitutes a major step for the transfer of ownership towards the pre-mentioned reform programme.

- The private sector in Libya lacks the appropriate technical and managerial skills that will match international standards, rendering it more competitive in the field of production. This is especially obvious when we consider the fact that the private sector should be undertaking the task of creating new investments involving all aspects of economic activities as planned by the state.

- The short length of time, which is based on an optimistic, though unrealistic prospect of a partial or a total involvement of foreign investors regarding the ownership of the recommended economic units, given the fact that foreign investors are expected to invest in new projects.

- Although the plan has not given any estimates of the value of the utilities recommended for privatisation, the total value may be in the range of billions of Diners. For example, "assuming the average net value of each utility is LD 10 million the requested price will be LD 3610 billion, and this total will eventually rise to LD 7.22 million at an estimated average value of LD 20 million for a single utility. Hence given the 5-year deadline even half this sum will be unaffordable to the private sector" (Elfeituri, 2004:10).

- An immense number of redundancies will be inevitable, given the fact that 58 economic units, employing around 4000 workers, will be scrapped for being unviable. Add to that, the 11 public enterprises that will be transferred to the LPSF, which accommodate around 3500 workers. Also, even the 192 companies which are considered viable will definitely make some compulsory redundancies. So, both the second stage (46) and third stage companies (54) as well as all the large companies in the two stages will tend to make a huge number of redundancies. Therefore, in reality, the actual total number of workers recommended for redundancy might amount to more than 7500 in these three stages.

Nonetheless, it will be most likely that few of these large numbers of redundancies will be re-employed, given that in most cases retraining will be inevitable. However, the problem will become worse if we consider new comers to the job market and those who are already unemployed. Hence, the only way out of this dilemma is the high rates of growth in the activities of the private sector in order to cope with high unemployment, otherwise the whole privatisation programme will be discredited.

Consequently, it has been suggested that various amendments should be taken into consideration in implementing the programme (Elfeituri, 2004; Hudanah, 2004; Mogherbi, 2004):

- Extending the duration of the privatisation process to 10 to 15 years from the present 5 years.

- Selling the more capable companies at the beginning of the programme either to the private sector or to foreign partners so as to ensure that the programme appears successful and acceptable.
- The partial use of the returns from the sales for improving other companies prior to their transfer to the private sector or to foreign partnership.
- Some of the returns from the sales may be used to assist the unemployed for as long as it takes them to find jobs.
- As a test of the good will and intentions of the new investors, the value of the utilities should be estimated at the market value, rather than the recommended book value. This is because, given the fact that investors always look for higher profits, the new owners might tend to divert the activities of these companies in their attempts maximise profits-as has been the case with the small privatised businesses.
- The incentives offered to the new owners should clearly be stated. However, these incentives should include significant cuts in customs fees on production-related imports such as raw materials and spare parts-or even full exemption for these items. In the meantime, the products of these companies should be protected by introducing high custom fees on similar imported products. These protective measures and exemptions should last for a temporary period of at least five years.

7.6 Motivating the Private Sector to Increase Investment

This represents the other level at which the state moves in order to activate the private sector. However, "the role of the private sector should not be limited to the ownership of the already existing utilities, but should rather be extended to involve the creation of new investment aspects featuring all sorts of economic activities" (Elfeituri, 2004:15).

If successfully this will inevitably achieve economic growth, rendering the economy capable of creating new jobs and improving the living standards of the people.

However, being aware of these issues, the state produced a further plan at the end of 2003. This plan aims to activate the economy by proposing a number of projects to be implemented within 3 – 5 years, starting from the beginning of 2004. This new proposed investment programme referred to as the first stage as mentioned above, extends for five years. The investment projects in this stage are divided into two groups:

7.6.1 The New Private Sector Projects

These will be in the form of partnerships and stock companies, usually involving small to medium size projects. However, as indicated in Table (7.6) there will be 3219 of these projects in total, which are expected to create 18999 jobs for a total investment of LD 819.6 million. It is clear that most individuals and families normally engage in projects involving agriculture or livestock resources. These projects usually accommodate 2-3 workers on average with a total capital of not more than LD 75 thousand for livestock resources projects and not more than LD 47 thousand for agricultural projects. In contrast, manufacturing projects are mostly medium or light with not more than 14 workers on average, with a capital of just under one million LD (op.cit:14).

Table 7.6: The private sector projects for new investments

Type of project	Number	Number of job opportunities	Average of the workers per project	The cost of investment	Average of investment per project
Manufacture	544	7419	13.6	506.2	0.931
Agricultural	815	7080	8.7	189.7	0.233
Livestock	585	2000	3.4	27.8	0.047
Marin	1275	2500	2.0	95.9	0.075
The Total	3219	18999	5.9	819.6	0.255

Source: General People's Committee Report, 2003.

These projects may be intended to accommodate the potential compulsory redundancies of the privatised or otherwise liquidated companies.

7.6.2 Joint Investment and Development Projects

These cover heavy and strategic industries, including aluminium, the cement factory at Jafara, the expansion of the iron and steel factory, Abi Kamash factory, and the two factories at Zeleiten and Libdah. Of these 16 factories, eleven are planned for investment by partnership and five are to be expanded and developed. However, they are likely to create 5840 jobs, if things proceed according to plan, with a total cost of around LD 2503 million. Table (7.7) shows the types of projects, the costs and the number of workers:

Table 7.7: Joint development and expansion investments

Type of project	Number	The cost of projects	The number of employees
Joint investment	11	2066	5290
Development and expansion	5	437	550
Total	16	2503	5840

Source: General People's Committee Report, 2003.

Given the enormous amount of investment involved (LD 3.3 billion) coupled with the short time limit (3 – 5 years), "this programme can be described as both over-optimistic and over -ambitious. Nonetheless, the main problem facing this programme is that most of the potential capital is expected to be generated from abroad as foreign investment, which is almost an impossible prospect given the huge capital and the inconvenient nature of the projects that might not suit foreign investors"(Hudanah, 2004:11). The programme, however, refers to the following as possible sources of funding (El Farsee, 2004:12):

- Self funding or loans as possible sources for the development projects.
- Individual saving could be a possible source of funding for the partnerships and stock companies, as well as loans from the Transformation to Production Fund or the specialised banks.
- Long-term loans from local and international financial institutions could represent a suitable source for funding the strategic projects.
- Several projects could partially or wholly financed by foreign investors.
- The infrastructure projects will be financed by the state budget.

This programme seems to be extremely demanding for the local donor institutions, given the limited resources of these institutions. Therefore, the only way out will be to create a new state fund to increase the credit available to these projects. Foreign donor organisations, on the other hand-especially those which Libya is not a member of are unlikely to provide credit for Libyan institutions without the latter giving the necessary guarantees.

El Farsee (2004:16) draws attention to this, when he said that "with regard to individual savings, they will not make a great difference, due to the low individual incomes on the one hand and the myriad allocation of these savings on the other hand. Nonetheless, these savings are most often used by banks to finance short-term projects".

Hence, as mentioned before, the transfer of the ownership of the public sector is mainly a joint venture between the private sector and foreign investors. These two parties will tend to buy public sector utilities at the market price.

Yet, in this case, in order to make the state capable of an economically feasible role in the privatisation process, it must allow extra time for the creation of new investment-e.g. in a period from 10 – 15 years rather than 5 years (Elfeituri, 2004:12).

7.7 Maintaining The Economic Balance

The transfer of ownership from the public to the private sector (privatisation) may result in some sort of economic imbalance with regard to new relationships that might emerge in the fields of production, work, ownership or even prices. Yet, at this point the role of the state become crucial in maintaining the economic balance among different sectors of producers, consumers, owners etc. The state has three mainly roles to play with regard to achieving the required economic balance:

1) Creating the right habitat for the growth of the private sector.

2) The protection of the private sector.

3) Monitoring the private sector.

7.7.1 Creating the Proper Environment for the Growth of the Private Sector

Zakee (1994:23) argues structural reform policy as "mainly intended to create the appropriate environment for investment. This is more likely to materialise through giving the necessary legal assurances, giving the right incentives such as tax and customs exemptions in order to attract the private investors to contribute to the development process. Even more importantly the state should assign the private sector the task of owning and managing the public projects. However, all this should rely on market mechanisms and getting rid of the restrictive bureaucratic procedures".

The success of the privatisation process is not only a matter of principles, but in the first place is highly dependent on the methods of implementation. However, the executive aspects are not merely technical-related to the assessment of the organisations and institutions in question-but rather involve a complicated political and social process incorporating public conviction and legality, besides needing a general consensus on the means of execution and application of the plan.

The most important economic and procedural elements that need to be available to ensure the success of privatisation can be summarised below with special reference to the Libyan economy and the presence or absence of these elements:

7.7.1.1 Socio-Economic Environment

Setting the right economic habitat will, no doubt, contribute significantly to the success of privatisation. However, it is essential that the economic scene is readjusted to cope with the market mechanisms, which implies that the reform policies are part and parcel of the privatisation process. These policies, which are clearly missing in the case of Libya, include the following (Tolba and Fhimah, 2004:24):

- Scrapping out the fixed price policies for goods and services as well fixed exchange rates, in order to reflect real costs and profits. This can take place gradually and concurrently with improvements in wages.

- Phasing out all privileges and sponsorship provided by the state to public sector companies. Also, the state should work towards creating a competitive environment by providing less protection to these companies and by easing restrictions on foreign trade, since privatisation in a non-competitive environment will become more of a problem than a solution.

- The reform of the banking system; in order to render it capable of providing the right services with regard to the transfer of ownership. As emphasised by Dager (2004:14), "the banking sector is a source of credit for achieving the growth of the private sector. However, the accumulated surplus (revenues + the revenue surplus) has amounted to LD 2043.2 million in 2003. This surplus constitutes 25.2% and 72.5% of the total bank deposits and the total saving deposits respectively. These levels reflect clearly, in part, the incapability of the banking system to provide loans and the low economic potentialities of the system".

- Establishing stock markets to facilitate the exchange of shares with respect to the privatised companies. The introduction of the necessary institutional and administrative reforms is crucial as is training staff to become capable of administering the reforms associated with privatisation.

However, the social aspects of the process of privatisation should not be overlooked, as they are as important as the economic ones. For example, in order to achieve legitimacy, the privatisation plan should be acceptable to society at large. Nonetheless, this would entail the plan being the subject of intensive debate, with regard to its advantages and disadvantages, in order to generate the public conviction that is necessary for the success of the privatisation programme. "With regard to the Egyptian experiment, it took three years to debate the plan. This debate involved the review of 17 experiments worldwide, with a number of symposiums held to discuss the problems associated with the public sector and the effects of these policies on the economic reform policies. All this was to make the idea of privatisation an acceptable option to proceed with the economic reform process in Egypt" (Kathb, 1999:45).

7.7.1.2 The Protection of the Private Sector

For the whole privatisation programme to be successful, the private sector needs to be temporarily protected. Yet, it is accepted fact that through the liberalisation of world trade Libya has become open to the whole world. Therefore international agreements-such as dual multiparty agreements, e.g. the Ban Arab Free Market agreement and others-will make life more difficult for the private sector in Libya, unless manufacturing and agricultural products are exempted. These exemptions should normally be temporary in order to protect local production until it reaches internationally competitive standards (Elfeituri, 2004,18).

7.7.1.3 Monitoring the Private Sector

The private sector whether national companies and partnerships or foreign investors, normally aims at achieving maximum profits. Therefore, since profit is the main incentive leading the private sector to engage in economic activities, these activities need to be closely monitored through clear cut legislation that disallows malpractice such as monopoly, exploitation, fraud and deception (Dager, 2004:19).

Hence the capability of the state to enforce the law, and therefore, uproot administrative corruption, will be crucial to the success of the economic policies. Having said that, however, these measures should be taken to the satisfaction of foreign investors, who would otherwise prefer to stay away rather than take risks. Moreover, without these measures the private sector is likely to be flawed which will harm the process of economic growth. As pointed out by Hudanah, (2004:6),

> "...both national and foreign investors prefer to work in an environment that can be described as secured and transparent with an abundance and reliable source of information which help the planners to make the right decision. Moreover the existence of the right research and advice institutions; capable of providing assistance and sorting out problems, besides a flexible banking system, relatively stable policies and legislations and a system of economy based on the market mechanism are all essential elements. However, those voices, which are, rightfully, calling for the creation of the suitable environmental conditions, arise from the belief that neither private nor public organisations can achieve any economic success in the absence of these conditions. Therefore, since these conditions do not exist at the moment, then their availability becomes more important than privatisation per se, even though we concede that the efforts made to achieve that are undeniable".

7.8 Conclusion

This chapter has shown that, over the past few years, extraordinary changes have been taking place in the orientation of Libyan foreign policy. This chapter shows that Libya has entered a new stage of relations with West by solving the Lockerbie crisis with the United States and United Kingdom and has agreed to compensate the families of those killed in 1984.

Therefore, Libya has undertaken several steps to be reintegrated into the international community. As has been seen, the U.S had started direct diplomatic meetings with Libya around the autumn of 2000. It was not ready, however, for direct meetings without an umbrella. That umbrella was provided by the British government. Moreover, Libya began to overcome what had been considered obstacles to good relations with other countries for thirty years. It was considered that its interests lay in a stable region and a stable oil market, without resorting to extreme measures as it had in the 1970s. It started also to filter and strengthen its network of friends based on the new realities.

We have also seen that the Libyan leader has on many occasions announced that no areas of conflict should remain between the U.S and Libya in the future. In addition, following the September 11, 2001 tragedy, Libya condemned the attacks and offered its assistance in the fight against terrorism and also offered cooperation between the security organisations of both countries, because Libya had experienced similar attacks by Islamic fundamentalists.

Alongside these efforts, the U.S has shown some official willingness to improve its relations with Libya. The first concrete measures were announced days after the actual handover of the suspects and the suspension of sanctions.

Furthermore, Libya issued a special permit to U.S oil companies to send personnel to Libya to inspect their assets and to look into the possibilities of doing business in the country. Then the U.S. the State Department eased the ban on travel to Libya by American citizens. These two decisions seem to have paved the way for better understanding and may prepare the ground for a seminormalisation of relations between the two countries.

Libya has also started to pay attention to other positive roles it could play, such as its greater role in creating the African Union and bringing peace to many parts of the African continent. Most importantly, Libya has taken a number of important steps to reduce its support for terrorist groups and activities. The most recent Libyan decision to surrender any internationally banned weapons of mass destruction can be seen as part of a larger shift in the country's behaviour and calling on others to disarm their WMDPs.

At the domestic level, it was noted that the implementation of the privatisation programme has stalled during the eight years between 1992-2000. Whereas now the state has currently begun to reinforce the privatisation programme and motivate the private sector in order to activate it for more investment. The state has also begun to transfer the ownership of a number of public sector firms to the private sector.

The failure of the public sector in diversifying the economy and in achieving economic growth through the creation of jobs have made the process of privatising and reorganising the production sector inevitable. This has implied a review of the role of the private sector by giving it a further chance to contribute to economic activities, given the flexibility and capability of this sector in coping with different economic variables. Similarly, most developing countries have come to experiment with correcting the course of their economies from being socialist and state-dominated to expanding the base of ownership (privatisation).

In the past, the role of the state had been limited to sponsoring the public sector and restricting the role of the private sector with regard to the different economic activities. However, the state has recently moved towards amending its legislation to pave the way for the private sector to play a wider role in economic activity, though more work needs to be done regarding the fine-tuning of such legislation.

However, with regard to the area of finance considerable malfunctioning still exists. The private sector is still immature and does not have enough resources to fully accommodate the public sector and create new investment projects. Hence it remains the responsibility of the state to establish the appropriate funds to assist private investors.

Moreover, the time limit suggested by the state (not more than 5 years) for the completion of the privatisation process has tended to put too much pressure on the private sector; given the huge task of the transfer of the economic units from the public to the private sector and the huge money involved-which may amount to billions of Libyan Dinars in new investment. Yet, a 10-year deadline and the creation of new investment projects will be more reasonable, given the capacity of the Libyan economy.

On the other hand, the role given by the government to foreign investment can be described as overoptimistic and a weak point in the plan and its objectives. For the privatisation process to be successful, the state must not jump to such conclusions without considering all the factors that control the roles of both the private sector and foreign investment and which might have a negative impact on the whole programme.

Furthermore, the assessment of the public sector utilities should be based on market prices. This would attract the more financially capable investors in the sale of the more viable companies thus generating more money to improve the status of the less viable companies prior to their sale, and also to provide the finances for the Unemployed Assistance Fund.

It has been suggested that various amendments should be introduced to the twin programmes initiated by the state in terms of the transformation from the public to the private sector and the creation of new investment projects. These amendments could render these programmes more realistic. Also, the state should satisfy all the necessary conditions associated with these programmes, including funding, the clarity of legislation, protecting and monitoring the private sector and taking the necessary measures with regard to the application of the appropriate economic policies.

End Notes

(1) For example, Libya halted the construction of alleged chemical weapons plant in Tarhuna; UPI, 19 March, 1997, quoted in a Brookings Institute report (http://www.brook.edu/fp/projects/nucwcost/tarhunah.htm).

(2) In April 1996, South Africa became a crucial supporter of Libya, and called for the lifting of UN sanctions; Times, 19 April 1996. The OAU asked for an end to the UN sanctions (they envisaged asking in July 1996); LNV, 10 February 1997. 52 OAU Foreign Ministers went to Tripoli – they wanted to fly but Qathufi made them drive from Jerba (Tunisia) to Tripoli, an 11 hour drive, to show how much Libyans suffered from sensations; LNV, 24-28 February 1997. Both the Arab League and the OAU stepped up pressure on the UN Security Council to review the sanctions; Kessings's March 1997. OAU Ministers meeting in the capital of Zimbabwe called for lifting of sanctions; LNV,5 May 1997.

(3) Qathufi then blamed the EU for Libya's exclusion from Euro-Med; LNV, 21 May 1997.

(4) For example, British-Libyan business forum established; PANA, 4 and 8 October 1999; Libya opens market to Italy; News Italia Press, No 018, Anno VII, 27 January; French Secretary of State for Industry goes to the International Business and Trade Fair in Tripoli, in April 2000; AFP, 10 April 2000.

CHAPTER EIGHT CONCLUSIONS AND SUGGESTIONS

8.1 Introduction

The first part of this chapter summarises the results of the analysis as they relate to the general theoretical framework that is presented in the chapter three. Building on the first part, the second part discusses the broader implications of these findings. The third part speculates on future prospects of reform in Libya. The final part locates the Libyan case in a larger context and discusses the possibilities of comparison for future research.

8.2 The Adoption of Economic Reform Policies

All countries should eventually respond to a balance of payments crisis with some sort of austerity measures. Therefore, when Libya was faced with such a crisis in the early 1980's as a result of the slump in the oil market, it was no surprise that the state responded by adopting austerity policies that aimed to address the imbalances in the economy. The more interesting question, however, is why several states choose to undergo a painful process of structural adjustment, and others do not. Libya, as we have seen, falls into the former category, but its reforms were by no means easy and by no means automatic.

The Libyan state adopted austerity policies, rather than structural reforms as a response to the fiscal crisis. In the early 1980's the state cut imports; imposed austerity on development budgets; decreased the number of foreign workers; resorted to the non-payment of its debts to foreign contractors; and started to draw on foreign reserves to finance its budget deficits. These policies were, to a major extent, successful. The Libyan state was clearly able to survive from an economic standpoint. In 1985 current account surplus was restored, and despite the huge decline in oil earnings in 1986, the deficit was contained at 156 million dollars in that year. Foreign exchange reserves recovered to 5.4 billion dollars by the end of 1986, again despite the sharp drop in oil earnings. This was not surprising since with a small population, considerable overseas investment and reserves and, certainly, with its oil resources Libya was well placed to withstand and the impact of reduced revenues.

Hence, one of the points illustrated in this thesis is that from a purely economic standpoint Libya could overcome international economic constraints by imposing more austerity. In fact, the leadership was aware of this. It was clear from Col. Qathufi's speeches that the prevailing perception among government officials was that the crisis was temporary and that with some austerity Libyan economy could overcome the problems. Then, why, given that the Libyan state was able to overcome the shocks from an economic standpoint, did Libyan leadership still embark on a radical reform? In order to answer this question one needs also to examine the domestic political process.

First, the preceding analysis has shown the importance of the social context in the initiation of reforms. It was domestic criticism that forced the state to rethink its earlier policies. The fiscal crisis made life difficult for Libyans. Especially the virtual collapse of the distribution system for consumer goods and severe shortages of foodstuffs created popular anger. Some of the protest took covert forms, such as the arson attacks on state supermarkets. Moreover, most of the political protest was channeled through the formal institutional structure. The GPC meetings became a forum for Libyans to criticise the state's economic policies. The 1987 congress was especially crucial in this respect since the delegates openly called for reform. Economic austerity coupled with public discontent, particularly over the conduct of the revolutionary committees and the Libyan involvement in Chad, increased the unpopularity of the state. It became obvious that Libya was going through a political crisis and the legitimacy of the state was under a major challenge.

Pressure from the social groups therefore played a decisive role in the initiation of the new policies. The domestic criticism, however, did not automatically lead the state to announce these policies. In fact, there were diverse views within the state about how to deal with the economic and political crisis. The conflicting trends that were apparent before the announcement of the reforms in 1988 were manifestations of the internal conflicts. On the one hand, there were revolutionaries who favored the continuing implementation of Qathufi's ideas as the appeared in the Green Book. On the other hand, there were technocrats and their supporters, who wanted to tone down the ideological rhetoric and tackle the weakening economy.

The deepening political crisis provided the technocrats an upper hand. Yet, technocrats' impact relied on the support from the higher echelons of the state hierarchy. As the criticisms mounted the Libyan leader seemed to realise that it was necessary to extricate the state.

In his speeches, he acknowledged the problems and criticised the inefficiencies in Libyan economy. A number of the state actors, most importantly the Libyan leader himself, came to the conclusion that the stability of the state was threatened. They wanted economic reforms because economic constraints made it politically in expedient, to continue with earlier policies. The crisis was a shock to the legitimacy of the state.

That is why at the beginning—economic reform came hand in hand with political reform. Most of the policies that were announced in 1988 were a direct response to the demands that were made in the GPC meetings. Reforms that aimed to privatise retail trade and services and to liberalise foreign trade were called for by the delegates at the GPC. The small-business-oriented nature of the demands was not surprising since before the radicalisation of state's economic policy in the late 1970's Libya had a considerable small-business community, which was supported, by the state.

Therefore, the nature of these demands showed how the underlying structural characteristics of Libyan society continue to determine the behavior of political actors. Nevertheless, support for reforms soon started to wane and the beginning of the 1990's there was a mounting criticism of the new policies. The delegates who were opposing reforms and criticising their effects used the GPC to express their discontent. At the end, the 1990 Congress adopted a "revolutionary programme". However, the political opposition did not succeed in reversing any of the policies.

The reforms entered into a new stage with the adoption of several laws that aim to liberalise the Libyan economy. Why, in the face of severe criticism, did the Libyan state go further and announce new policies that attempted to consolidate the new state strategy? The answer lies within the leadership and the state apparatus. The analysis showed that the consolidation of reforms came from within the political elite and government economic team. However, their perception of the economic and political situation in Libya was conditioned by several key factors.

First, the international environment became increasingly limiting in the 1990's. The cumulative effects of years of U.S. embargo and the imposition of the U.N. sanctions started to be felt and influenced in the economy. The collapse of the Soviet Union and the end of the Cold War had important consequences for the Middle East in general and Libya in particular.

The deterioration of U.S. Libyan relations came at a time when the U.S. was increasingly recognized as the only superpower. Even before the embargo hit economically, the host relations between the two countries created a sense isolation and vulnerability in Libya. After the Lockerbie incident, the involvement of the U.N. Security Council and the fact that other countries followed the U.N embargo, no doubt increased this sense of isolation. As time passed, and as Libyan state attempts at reconciliation failed, the Libyan state felt that its survival was in jeopardy.

The economic impact of the embargo also started to be recognised and it helped to deepen the fiscal crisis. Moreover, in the 1990's it became clear that the downturn in the oil market that started in the 1980's was not a temporary phenomenon but a sign of changes in the world oil market that were detrimental to the interests of the oil exporting countries. Although the Libyan economy benefited from the windfall earnings, resulting from the Gulf crisis, after that it continued to suffer from the effects of fluctuating oil prices.

Second, the GPC continued its criticism of the Libyan economy system. Especially disturbing for the delegates were the high cost of living; inadequate housing; non-payment of salaries; the poor state of facilities for health and education; and shortages. These criticisms made it noted that earlier policies had become economically and politically unsustainable and, to survive, the state had to change the course of its economic policy in a more radical way. It could no longer continue with its distributional policies way it used to. Moreover, its control of the economy was slipping away, because of the contraband trade and speculation. In other words, in Libya, the state "withering way" and ironically to save it the state had to shrink the state intervention and encourage many private sector activities in the economy.

In the meantime, the technocrats seemed to be the upper hand in the state. The Libyan leader held series of televised meetings with economic, finance, oil and experts to discuss the issues facing the country. In these meetings a very grim picture emerged as far as the future of the country was concerned. This was also a way for the leadership to communicate the message of crisis towards Libyans and thus gain their support for the new policies.

8.2.1 Implementation

The 1988 reform programme was almost implemented: retail trade and services were privatized; state import monopoly was abolished in most of the consumer goods; and the T*ashrukyia* (self-management) system was implemented in several and medium-scale industries. The most important reason for the successful implementation of the new policies was the sense of necessity and urgency felt by the leadership in the face of growing domestic economic criticism.

Initially the only opposition to the reform policies came within the state apparatus, however, the state officials who fevered new policies overcame the opposition by gaining the support of the Libyan leader. Once these policies were launched, the opposition from social groups was resisted since by that time a consensus was reached at the higher echelons of the state that the earlier policies were unsustainable and that there was a need for more radical reform. However, the implementation of the policies that were adopted in second stage is much more difficult as they require a drastic change in the nature and direction of the Libyan economy. There are important constraints to the successful implementation of these reforms;

The first factor is the opposition from social groups. Although there was a widespread support for the initiation of the reform policies, this support started to diminish as time passed. Some groups especially became critical of new policies as they began to see them contrary to their interests and/or ideological belief. But what is more important, the opposition to the change in state strategy was becoming more widespread with the implementation of the second stage of the reform programme as the distributional consequences of these policies are far more profound. The demands made in the 1994 GPC meeting to continue state subsidies and entitlements, and concerns about unemployment illustrated the extent of concern about the new policies.

Another reason for the difficulty of implementing the reform lies within the state. Although in the 1990's there seems to have been a consensus about the new policies, ironically state interests and issues of legitimacy complicate the implementation of reforms to their fullest extent, The political elite is concerned about the possible effects of privatisation and fears that these policies challenge the state. On the one hand, the distributional effects of market creation and the shrinking of the state can challenge the legitimacy of the state, which was first and foremost based on the equal distribution of oil rents.

In addition, privatisation can create alternative sources of power that can challenge the state. Therefore, this paradox of the necessity and the danger of reform will affect the swift implementation of the new policies. The fact that in recent years '2000s' the state has been challenged from outside will further produce different situation comparing with the pervious time.

The lack of institutional capacity of the state is another factor that affects the implementation process. State capacities for economic intervention did not develop well in Libya. This was despite the fact that through public enterprises the Libyan state actively participated in production and market exchange. However, particularly the fiscal capacities that were necessary to mobilise resources domestically, which were crucial in the periods of bust, have been absent. Instead of extracting from society in the form of taxes and fees, the Libyan state opted for the privatisation of parts of the economy and the shrinking of the state. Nevertheless, these policies also require institutional capacities that are generally lacking in Libya.

The effective action by the Libyan state has been constrained by the absence of an extensive and coherent bureaucratic machinery. The formulation of economic policy becomes extremely problematic because of the inadequacy of data on the economy and population. Furthermore, despite the attempts to institutionalise the reforms especially in the second and third stages, several important institutions, such as credit and banking system that are crucial to create and sustain a market economy are still not established.

It was noted that the implementation of the privatisation programme has stalled during the eight years between 1992-2000. Whereas now the state has currently begun to reinforce the privatisation programme and motivate the private sector in order to activate it for more investment. The state has also begun to transfer the ownership of a number of public sector firms to the private sector.

The failure of the public sector in diversifying the economy and in achieving economic growth through the creation of jobs have made the process of privatising and reorganising the production sector inevitable. This has implied a review of the role of the private sector by giving it a further chance to contribute to economic activities, given the flexibility and capability of this sector in coping with different economic variables. Similarly, most developing countries have come to experiment with correcting the course of their economies from being socialist and state-dominated to expanding the base of ownership.

Finally, the constraints that originate from the international arena limit the possibilities of successful reform. In fact, the U.N. embargo harmed the efforts of economic liberalisation. By weakening the currency and increasing the cost of living it contributed to the general worsening of economic conditions in the country. Moreover, the uncertainty created by the embargo decreased the level of confidence of both international and domestic businesses for the stability of Libya. In addition the continuing volatility of the world oil market contributes this sense of instability.

8.2.2 Broader Implications of the Economic Reform Programmes

This study has demonstrated that the change in state strategy in Libya from extensive state control of the economy towards encouragement of the role of the private sector can be understood by examining the interaction between the international and domestic political economy.

The effects of the international economy and politics have been crucial. During the period under examination the international environment presented constraints to Libya and affected the economic policy choices made by the Libyan state. The analysis of the Libyan case was important in demonstrating that the effects of the international arena on economic reform were not only limited to the influence of the I.M.F. and the World Bank. Moreover, the analysis also showed the importance of the international political factors in domestic economic policy making.

Nevertheless, although the external factors were important, the effects of these factors were mitigated through the domestic context. The analysis demonstrated that to understand the scope and the nature of policies and to comprehend, in more detail, the process of their implementation one needs to examine the internal socioeconomic and political environment. As opposed to the prevailing view in the literature, in the Libyan case demands from the social groups played a crucial role in the initiation of the reform policies. Society was present from the beginning, not just in the implementation process. On the other hand, social demands were not automatically translated into policies.

The state actors' perception of the crisis and the struggles within the state apparatus were two important variables that influenced the state's response. The demands from social groups were limited to what I called small-business-oriented reforms; The GPC never advocated policies that would drastically decrease the role of the state in the economy. The delegates routinely called for the continuation of state subsidies and services. The impetus for the second and third stages of reforms, which aimed at more structural transformation of the Libyan economy came from the state.

However, the decision to launch these policies was affected by the domestic criticism of the state's economic policies. Thus, the analysis showed that the economic reforms in Libya were virtually a result of a political process that required a constant negotiation between state and society. Within this context the thesis raised important questions about the nature of the Libyan state and its relations to Libyan society. On the one hand, the formation and, later, the capacities of the Libyan state challenge the basic definition of the state.

Another argument developed in this thesis is that the Libyan leadership responded to domestic demands. This outcome is all the more surprising as it goes against the argument that the rentier states are autonomous in relation their societies. In fact, the literature on the rentier states does not say much about the state - society relations, if anything it tends to suggest a uniform view, one in which the state is highly autonomous. However, the Libyan state proved responsive to social demands. This study suggests that there is a special logic in rentier states that establishes a special relationship between the state and the society that creates this responsiveness.

In these states the legitimacy of the state and its survival depend on its ability to distribute the oil rents. When this capability of the Libyan state was hampered it became open to challenges from the society and its survival was in jeopardy. In order to survive the economic crisis the state felt that it needed to adopt new set of policies.

The role played by the GPC throughout the reform process also raised questions about the institutional context of economic policy making in Libya. This very institution, which was mainly intended to coopt independent political action and to consolidate power in the Libyan leader's hands, actually worked, on this occasion to translate the popular concern into concrete programmes of action within reasonably deliberative process.

However, during the period under study Libyans extensively and, most of the times, successfully used public institutions to influence the decision making process. Despite its reputation as an institution that rubber stamps the ruling elite's decisions, the GPC to some extent became a forum for Libyan who were dissatisfied with the way things were. The demands for reform were routinely articulated in the meetings of the congress. Moreover, the groups that oppose the whole idea of reform or just parts of it also used GPC as a forum to voice their opposition.

The extent of the participation of the GPC in the policy making process during this period was exceptional. The reason for this was the nature of the issues at hand. The issues of economic well-being were felt directly by the Libyan people and the population felt and recognised strongly about them. They constituted the basis of the "social contract" between the state and the Libyan society. The same democratic process is not necessarily at work on other issues, where the elites can afford to ignore popular will.

It was after the revolution that for the first time in Libya's history has Libyan people started to participate in the political process to this extent. Especially at the local level the Libyans have more power to influence the decisions. At the national level as well the GPC is an important forum where policies are discussed and ratified. The congress not only tries to influence decisions and policies, but also lends legitimacy to the decisions and policies of the top leadership. The mere presence of the GPC and other representative bodies is significant in showing the need of the leadership to legitimize its policies.

8.3 The Future of Libyan Liberalisation and Lessons from UK Experience

The privatisation movement swept through the world during the 1980s and became a global phenomenon. Lady Thatcher took a lead it putting the concept into practice, which set an example and has prompted countries worldwide to use it as a model for their own policies. The United Kingdom was the pioneer in selling major state-owned utilities into private hands through stock market flotation in order to transfer the ownership of public companies to millions of shareholders.

The major emphasis of privatisation was to promote wider share ownership and receipts generation to meet deficit requirements. The UK government chose the cases for privatisation carefully to achieve political and commercial success. Arguably, they sold public assets off below their market value to encourage buyers, and they avoided selling off assets (like nuclear power) where there was a real risk of failure.

Although they are often portrayed as part of an ideological drive, British privatisations were pragmatic. Furthermore, significant parts of the total economic activity were overseen by the state through the use of economic apparatuses such as interest rate and taxation policies, or. If ownership was relinquished, control was maintained through regulatory activity. The sophistication of British privatisation may not be directly relevant to a developing country policy, but they give examples of possible ways forward and their economic effectiveness.

As a lesson, it is important to mention that privatisation is not a panacea for all economic ills. It solves many problems but also creates many more. Even in a country like the UK, which is pioneer of privatisation, the strategy was neither simple nor straightforward. It needs to be emphasised that the UK is a good example of a balanced economy, with established democracy, public institutions, full respect to ownership and wealth accumulation, a measurable history, where for centuries the economic activities have been mainly in private hands, and the economic models were tailored according to the needs of the time in a prevailing culture which was flexible enough to accommodate national and international changes.

In spite of all these plus points, this country faced some resistance and delay in implementation of privatisation programmes. This type of 'semi-ideal' situation does not exist in developing countries. It indicates how difficult it would be to implement an imported model of privatisation in countries such as Libya with unstable capital formation, high risk ranking, minimum social security, low population growth, high unemployment, with an under-developed economic and institutional set up and also ambiguity in the definition of ownership and a history of confiscation especially in 1970s, whilst at the same time placing emphasis on Islamic values and national autonomy. However, it does not detract from efforts to implement such a model; rather, it requires lessons to be learned from the experiences of other countries.

The methodology adopted for UK privatisation possessed a number of desirable features. The government established regulatory bodies for some companies such as utilities, to supervise the customers' interests. Some companies were unable to operate in a wholly commercial environment because they were operating socially desirable services (e.g., British Rail), often reliant on subsidy from government. In order to privatise such companies successfully, new relationships between the public and the private sectors were established, for example to target subsidy only at those services where direct support was essential.

The British government and others proclaimed the UK privatisation programme as a template for other countries but this may not be true especially for countries like Libya where there are clear differences in the level of infrastructure development, and in the socio-cultural and political system. The UK privatisation experience was founded on a long history of political, economic and social stability, respect for the entrepreneurial ethos and the rights of the individual that allowed financial institutions to develop and flourish in an environment regulated by an independent judiciary, which allowed the UK to be a leading contributor to rationalisation and globalisation. The major lesson for Libya is that there is a need to adapt and tailor these development models into its existing cultural and political framework and gradually harness this to a committed privatisation process to deal with the major economic and administrative problems that mentioned in chapter 4.

After the 1969 revolution the role of the state in the Libyan economy had gradually increased. Government expenditure as a share of GDP rose considerably. So did the number of jobs in the public sector. Ideologically, the state aimed to dismantle the state and attempted to create an image of a "stateless society" (Vandewalle,1998).

However, the ideological intent did not translate into total reality mostly because of the fact that huge amounts of external rents accrued directly to the state. As a result of the centralizing effect of the oil revenues, the state acquired distributional and developmental functions, which in turn led to the expansion of the state machinery.

Although it is true that the Libyan state had limited economic capacities, still the presence of the state in the economy has increased considerably through the years. Despite the total control of the economy by the state especially in 1970's and 1980's, there were areas where the private business continued to function. Most of these areas, however, were limited to non-Libyans.

First, Libya relied on foreign participation in its petroleum sector. Second, most of the projects were implemented by foreign private firms. Third, in agricultural sector small private farms were allowed to exist. Fourth, several small businesses continued to function especially by employing foreign labor. Finally, some Libyans "exited" from the state-controlled economy to the black market. Nevertheless, until the initiation of economic reform policies in the mid-1980's, the state had a paramount role in the Libyan economy. The question then is how has this changed as a result of the reform policies?

It is noticeable that since the mid-1980's drastic changes have taken place in terms of both policy and implementation. Retail and wholesale trade and services have been privatised and complete state monopoly on external trade ended. Through the *tashrukiya* system the controls of a number of small state enterprises were transferred to their employees. Most importantly in the long run, in the second and third stages there have been attempts to create a legal institutional environment for the functioning of the new system.

However, I would argue that in general terms the economic reform in Libya will lead to a "large liberalisation" in the near future. By that I mean the private sector is seemingly possible to play a major role in the privatisation programme and likely to be extended to certain small and medium industries. There are two reasons for or this: First, it is clear that as far as the state continues to rely upon oil revenues, which witness variations in the international oil market, its role in the economy was affected and accordingly. The Libyan state faced many difficulties to accomplish its plans and projects, this was mainly due to the drop of the oil price in mid-1980s and the beginning of 1990s.

Second, politically, too, "the liberalisation of the Libyan economy" became more favourable to the Libyan leadership, which allow a new independent business class such as the Libyan businessmen to run many economic activities. Meanwhile, as a result of the reforms the economic role of the state could be transforming. There will be less state participation in production and distribution compared to earlier periods, and not more involvement regulation. Obviously, regulation requires different capacities and to sustain the reforms the Libyan state has to develop these institutional capabilities.

The Libyan state is actually facing important challenges in recent years. Creation of markets is a highly political process. It can be argued that markets dislocate groups in both the political and economic realm and it creates inequalities. Some of these issues have started to come to the forefront in years. Problems such as increasing cost of living and rising unemployment have been discussed in the current G.P.C. meetings: With an estimated population growth rate of 3.7 percent and decreasing revenues the state has to help to create new opportunities for Libyans through the privatization programme.

On other hand, the breakdown of the welfare system and creation of new wealth will very damaging to the state that has based an important part of its legitimacy on greater social justice and equality. The weakening of the political formula of the state would make it more vulnerable to challenges. In fact, there have been clear signs of struggles to dominate the state policies in recent years. The Libyan leader has been trying to strike a balance between increasingly vocal GPC and the groups like revolutionary committees.

The attempts to establish a new administrative structure build on EL-Shabiat "Municipalities" is an example of this. Recently the state also started to restructure the General People's Committees of many sectors. The results of these attempts remain to be seen. The secretariats that are directly associated with economic sector have suffered from measures such as merger, cancellation and partition making it difficult, if not impossible, for the economic sector to adopt clear cut and stable policies, which will definitely render these policies ineffective and falling short of achieving their objectives.

Moreover the increasing cases of partition and merger has resulted in a main setback in the performance of other secretariats, institutions and economic organisations, besides the prospective administrative instability and the overlap in responsibilities. It also affected the abilities of the secretariats and institutions of the economic sector to acquire and provide the necessary economic indicators and data that is likely to essential for the right decision making.

The adjusting and streamlining the economic reform and privatisation processes necessitates the enhancement and developing of the productive and organisational capabilities of the state institutions and the other capabilities of the state in order for the later to play its inherent and significant role.

However, one thing is obvious that the state is increasingly facing challenges. The paradox of Libyan leadership, and especially The Libyan leader and his supporters, is that they know they have to liberalise the economy to survive, but if they liberalise too much and too quickly that can undermine the state itself. It has been noticed that the process of economic reform and privatisation has been the subject of a robust ideological opposition, particularly from the Revolutionary Committees.

This opposition has clearly been expressed by Zahf Al-Akhdar news paper (several issues), publishing a number of articles in opposition of the restructuring of the economy, and describing the process "as a return to the old exploitative capitalism" demanding the devotion to the socialist system as being prescribed by the Third Universal Theory. In addition, these reforms have been the issue of a strong opposition by the directors and leadership of the public economic institutions who actually fear the loss of their privileged status following the implementation of the reforms.

Most important is the contradicting statements made by the different state institutions on this issue. From these statements one can clearly understand the absolute inconsistencies of the numerous decrees issued by the Basic People's Conferences and drafted by the General Peoples' Conference (Parliament) and the related regulations and directives issued by the General People's Committee (Cabinet) legislating for a number of economic reforms. These legislations have sanctioned the resumption of many individual economic activities, paving the way for the local and foreign investment from one hand and circular No (1) for

(2004) issued by the General People's Conference concerning the basis and the regulations for the people's election from the other hand.

For example clause (5) of article (2) concerning the conditions and terms of preference stipulates that the selected person should not "belong to those who practiced brokerage or speculation or those who had been contractors or engaged in trading or had been known to be exploiters" (Benghazi News, 2004:1). Therefore, how could contract and trading activities be allowed and banned simultaneously by the effective rules? In the meantime these people have got the full right to be for key public posts as if these posts are unlawful or an illegal activity.

However, if these legislations are targeting those who have been contractors or traders prior to the socialist transformation in 1978, then 25 years on seem quite sufficient for those individuals to re-qualify and join the new political and social system or is it not? As a matter of fact it could be both morally and logically wrong for the state to legislate for certain economic activities and practices, and in the same time practices political discrimination against the individuals involved in these activities. This discrepancy has important implications and bearing on the policies of economic reform and the attraction of the potential capital. They cast doubts and uncertainty regarding the stability and persistence of these policies causing investors to stay aloof rather than contributing to the economic activities.

8.4 Suggestions for Further Research

There seems to be several possibilities for comparative research that would further address the issues that this thesis raises. The most obvious one is the comparison of the Libyan case with other oil economies.

All these countries currently adopted liberalization policies at varying degrees. But what is more important they share a common challenge: the drop in oil prices and the continuing transformation of the world oil market. It would be interesting to see what kind of policies they have adopted and how successfully these policies have been implemented. The most promising venue of comparison, at least initially, seems to be Saudi Arabia. Like Libya, Saudi Arabia is extremely dependent on oil revenues.

In addition, it shares with Libya several structural constraints: scarcity of personnel, Lack of water, limited agricultural potential, and underdeveloped institutional capability. On the other hand, in contrast to Libya, it enjoys good relations with the U.S., it has a different ideological system; and, finally, the economic and political structure and the domestic actors are completely different from that of Libya.

Over the years, as a result of its distributive policies and despite its ideological commitment to the private sector, the role of the Saudi state in the economy increased. It is argued that, rather than being a market system, the Saudi economy was, instead, a completely open system where the state simultaneously subsidized importers, producers, and consumers through the unencumbered distribution of oil revenues (Chaudhry,1992:146).

As a result of the decline of the oil prices that started in 1982, Saudi Arabia was faced with large budget and current account deficits of the external balance of payments. The situation deteriorated further with the oil- price crash of 1986. Part of the response of the monarchy to the fiscal crisis was to adopt austerity measures. Capital spending was cut, either by delaying or canceling a number of projects, and number of foreign worker was decreased. In order to attract Saudi private capital that was invested abroad the government also started to sell development bonds. As argued by Wilson (2004:126) "since the mid-1980s Saudi Arabians have expressed a desire for the private sector to play the leading role in the economy, with government playing a supportive one by providing a positive environment for private sector activity".

On the other hand, a more comprehensive programme that aimed to raise non-oil revenues and decrease state expenditures failed. There were basically three reasons for this failure: The first and the most important one was the extent of the opposition from social groups, especially the business elite. In fact, the policy proposals like imposing "corporate and individual taxes, *zakat* "donation" payments, progressive fees on the consumption of electricity, water, and gasoline, the new Labour Transfer Law (requiring businessmen to get authorisation for the Import of foreign labour).

The Saudisation Law (requiring businesses to hire Saudi labour instead of foreign workers, the new Social Insurance Law (requiring businesses to pay social security payments previously covered directly by the state budget) and the withdrawal of agricultural subsidies" were staunchly opposed by the business elite and could not be implemented (op.cit, 2004).

The Saudi state also had to negotiate some of its new policies with another important - social group; the *ulema* especially opposed to new banking and legal regulations. However, it was not as influential as the business elite in altering government economic policy. Second, the Saudi state found it difficult to out military expenditures. "Pressures to continue these expenditures came from social groups, some state officials, and foreign governments, especially the U.S" (Mohamedi,1993a). Finally, the weak institutional capacity of the Saudi state limited the possibilities of effectively implementing policies that would extract revenue from the society.

The pressure of fiscal crisis was temporarily lifted when in the early 1990's higher oil prices following the Iraqi invasion of Kuwait created a small boom. In the meantime, during and after the war the Saudi private sector benefited from increased government spending and war-related contracts (Mohamedi,1993a). However, the aftermath of the war was disastrous for government finances and the 1990 and the 1991 budget deficits reached record levels. For first time the government was forced to barrow on the international market

The economic crisis in Saudi Arabia even prompted an I.M.F. warning that "a broad-based review of policies" was needed (op.it: 23-30). However, despite the dire situation, for the same internal and external reasons, the monarchy could not implement reforms that would increase its revenues and decrease state expenditures. Instead the state officials took what seemed to be the only possible option; to support and expend the private sector.

In this way the monarchy could expand the country's productive base. The reforms aimed to achieve this end were adapted after taking into considerations the demands of the business elite. A financial sector reform that tightened banking regulations and supervision also encouraged banks to play a more active role in financing private sector investments. The monarchy also adopted measures, such as increasing tariff rates, to protect the domestic companies from foreign competition in commodities and contracts. In addition, the private sector was allowed to buy shares in public utilities and other state industries. In most of these cases the Saudi monarchy, in an unprecedented manner, guaranteed certain rate of return for private investors (Chaudhry,1992:148).

The Saudi case seems to support the conclusions that were drawn from the Libyan case. First, the proposition that there is no direct relationship between fiscal crisis, on the one hand, and liberalisation and structural adjustment policies on the other held up here as well. Second, even a brief discussion of Saudi Arabian economic reform policies showed the necessity of paying attention to both international and domestic contexts.

Finally, the Saudi case highlighted the importance of social context and state-society relations in the formulation and implementation of economic reform policies. In fact, even more than the Libyan state, the Saudi state had to negotiate with its clients throughout the process. The state-created powerful business elite, which had close primordial and interest-based relations with state actors, was very effective in influencing the policies of the Saudi monarchy.

As a result of the distinct patterns and institutions that characterized state-society relations, however, the nature and the content of the demands differed in these two countries. In Libya, the demands for reforms remained limited to consumer and small-business-oriented demands. Nevertheless, despite the arguments for the autonomy of rentier states, these two cases illustrated the limits of that autonomy during the period of revenue slump.

Another possible case of comparison with Libya is Cuba. Like Libya, Cuba suffered from years of U.S. embargo, declining sugar prices in the world market, and affected by the changes in the international political arena. Although Cuban socialism was closer to the Eastern European model, there were some similarities especially between social and economic policies of the two states. Both countries had planned economies that favored very extensive state involvement in the economy .The two states also adopted highly egalitarian policies that aimed at equal distribution of wealth and free welfare services. However, in terms of economic policy there was a slight difference: The Libyan state launched the Jamahiriya experiment in the mid-1970s, which aimed the total state control of the economy.

During the same period the Cuban government launched a new management and planning system (*Sistema de Direccion y Planificacion de la Economia*, SDPE), which was modeled after the Soviet economic reform policies of the 1960's. This system introduced some market instruments and greater measure of decentralization to the Cuban economy. However, despite these changes the role of the Cuban state in the economy remained Paramount. Therefore, both Cuba and Libya confronted the issue of market creation rather than market expansion in the late 1980's and 1990's.

Like Libya and Saudi Arabia, in the mid 1980s Cuba faced a balance-of-payments crisis. In this case the reason was mainly the collapse of the world market prices for sugar, a product that constituted bulk of the Cuban export earnings. As a result, the current account in convertible currency swung-from a surplus of 263-million pesos in 1983 to a deficit of 211 million pesos in 1995 and 506 million pesos in 2000. The crisis resulted in shortages and inefficiencies. The (Economist Intelligence Unit, 2004, 3rd,April)

However, the Cuban economic situation deteriorated further with the collapse of the Soviet Union and the change of states in Eastern European countries. The sudden disruption of its trading relationship with these countries created severe shortages in Cuba. The Eastern Bloc not only "provided Cuba with the opportunity to purchase, on a barter basis, commodities essential for its economy, but they also paid premium process for Cuban exports and extended development credits". (Perez-Lopez, 1992).

The Cuban state responded with more austerity. In August 1990 an economic programme called "special period in peacetime" (*periodo especial en tiemoo de paz*) was launched.

As late as May 1994, a special session of the -National Assembly approved more austerity measures. Agreed policies included the widening of the income-tax net; taxing income from abroad; higher bus fares and water and postal rates; the removal of subsidies from a range of goods (EIU, Country Report,1995). During his speech at the Assembly Castro said measures were essential "if disaster to be avoided" even though they would reduce the government's popularity (EIU, Country Report,1996).

This does not mean, however, that the Cuban state did not change its policies to allow for more private sector involvement in the economy. The government eagerly sought foreign investment. As result, by mid-1993 nearly hundred joint ventures with private investors were established mostly in tourism sector, but also in other areas, including telecommunications, light industry, and construction. Privatisation mostly occurred, however, in the external sector. Nevertheless the state did allow few private domestic contracting in the service industry.

Therefore, compared to Libya, Cuban liberalisation efforts in terms of creating possibilities for domestic private sector remained limited. Especially interesting was the capability of the Cuban government to continue with severe austerity measures. There seem to be several possible reasons for this: First, despite the austerity Cubans seemed to be generally understanding and supportive of state's policies (Brightman 1994). For instance, a public opinion poll taken in the spring of 1990 showed that although Cubans were complaining about the food supply and transportation (only one-fifth and one-tenth of respondents, respectively, said that the food supply and the quality of transportation were good) three-quarters of the respondents thought health services were good and that four- fifths believed the same about their schools (op.cit).

Like in Libya, the state allowed Cubans to publicly express their frustrations. On the other hand, the limited privatization efforts and the state of the tourism industry were also openly discussed. However, Cuban economic crisis did not turn into a political crisis as it did in Libya.

The comparison of these three cases showed that economic crisis does not necessarily lead to liberalization measures. In order to understand different choices made by different governments one need to examine the domestic political process. This analysis suggests that the nature of the relationship between state and society and the nature of state capacities affect the level of tolerance of a state to economic crisis.

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Appendix A List of interviews Questions

-Let us begin with a general question about your perception of investment and what its role is in favour of Libyan economy?

-Nowadays, are the circumstances appropriate to encourage the investment to Libya?

-What are the legal opportunities that identify the rights of investors to encourage them to invest in Libya?

-What are the criterions of the Investment Encouragement Corporation carried out to achieve its objectives?

-Is it possible to say that Libya has actual guarantees to protect the rights of the foreign investors?

-Is it possible to let us know about the activities of the bank to support the projects and private companies?

-We know that, Benghazi is the one of the most important and the second biggest city in Libya. It has large human and financial resources. Actually, I would like to ask you about the economic changes of the Libyan economy. Could we say that there are some economic improvements because of the development plans approved by the state?

-There is a question related to the ideology of the State and its perception of the importance of the privatisation, which has been implemented in some sectors, especially industrial sector and then what are the difficulties confronted the State in achieving the privatisation?

-We know that the role of the Central Bank of Libya is very important for financing the development projects. There is no doubt the bank has its own mechanism to implement the monetary policy which represent the economic policy of the state. Could we know more about these policies?

-Are there any legal measures or procedures allowed the establishment of private banks within the new policy, which concerns the liberation of economy and known as the sharing of the local sector in the economical development?

-Could we understand that the Central Bank of Libya has confronted with difficulties or let us say financial problems because of its inability to satisfy his responsibilities towards the public associations?

-I have an important question about the policy towards the privatisation; is the programme of privatisation including the public banks and what is the possibility of allowing the private sector to pursuit their economic and financial activities?

-As a 'General Clerk of the People's Committee for Finance', what are the hindrances confront the Libyan economy and postponed the economical development?

-Do we understand that there is inefficiency in the administrative system and weakness of resources or other factors affected the system?

-What are the most important works and activities, which are implemented by the bank to participate in the economical development?

-As it seems the last two decades period has characterized by many major changes applied to the Libyan economy in its framing system and policy decisions, which have great effects on the private projects. In your opinion, what is the role of these changes in the economic activities in Libya?

-Do all these performances mean that the state is attempting to reform the economy on new foundations through the partnership between individuals in public firms or for other factors?

-As you, the production sector, represent a wide sector in the society 'all sectors', can we know the role of private projects in provision of work opportunities for Libyans under the policy of giving the private sectors larger role in economical development?

-What is the role of the 'Chamber of Commerce' in the process of economical development in Libya?

-What are the difficulties faced you during your work in the chamber of commerce to support the economical development?

-What are your comments on the experiences of the Libyan economy and the roles of the private and public sectors in the economical development and what is the role of the Chamber of Commerce?

-Through your long service, especially during 1980s, is it possible to know your evaluation of the Libyan economy processes throughout the last two decades and what it dealt with was an economic or administrative crisis?

-Through your analysis of the administrative improvement, what are the defects of the 'Civil Servant Organisation', not in the period of your administration but during the current period?

-We know that the administration system in Libya since 1973 had been changed from traditional administration to people's administration, which is still in use. What is your comment on such type of administration, which is run by the people's committees?

-Is it possible to know about the most important subjective characteristics of the public association administration; mostly organizing it?

-We know that the 'Research Centre for Economic Studies' has a role in preparing reports and execution of social researches concerning the Libyan economy. How can we know, through your long experience, the stages and changes of economy in different periods?

-Towards this situation, was there any strategic policy for economic development depending on petrol resources only, and what is the role of the public sector?

-Is it possible to say that the economic crises have impact on the situation of the economy as a whole and created obstacles to execution of the developed plans? Therefore, the privatisation policy, which started by the state, came as a result of the failure of the public sector?

-In the beginning what are the types of sharing offered by your administration and what do these sharing mean for the Libyan economy?

-The economic society, usually, offers consultancy and advice to many areas and associations. What is your idea about the privatisation process?

-There is no doubt your previous experience as a secretary 'minister' for the general people community of economy and light industries has great effect on your understanding the Libyan economy in 1980s, in which the process of free economy and participation of the private sector has started to inter the economical and investment projects. What are the characteristics of that period? How do you evaluate that? What was the role of both public and private sectors? Is what is happening now a part of the improvement of the economy?

-In your opinion, how did these unbalances in the Libyan economy happen and what were the reasons behind that?

-In your opinion, why doesn't the state in the past be interested in the private sector, while nowadays there are indicators of the participation of it? Could we know the size of participation of the private sector?

-According to your opinion how do you evaluate the public experience in the commercial activities in the local market?

-We know that the local marketing company is one of the biggest companies owned by the state. What is the impact of the private companies, which import many commodities, on your company?

Appendix B **List of the Questionnaire Questions**

1. The lack of clear cut monetary policies, restrictions on credit which disrupts privatisation?

Yes ( ) No ( )

2. The of reliable infrastructure such as transport, telecommunications and other important public services hindering private projects?

Yes ( ) No ( )

3. The lack of a stock market for shares and bonds, which will not assist the privatisation of the public sector?

Yes ( ) No ( )

4. The existing tax and custom laws do not encourage the progress of private businesses?

Yes ( ) No ( )

5. Rampant social ailments such as bribery, nepotism and mediation?

Yes ( ) No ( )

6. The lack of transparency and freedom in information exchange regarding the economic realities and information through IT and telecommunications systems?

Yes ( ) No ( )

7. The lack of well designed long-term plans and a suitable approved administrative strategy that will encourage privatisation?

Yes ( ) No ( )

8. The complicated existing routine procedures for the transfer of ownership of the public sector companies to the private sector?

Yes ( ) No ( )

9. The relevant laws and procedures for privatisation are falling behind and will likely discourage investors?

Yes ( ) No ( )

10. Inaction and lack of seriousness in facing the potential challenges involved in the privatisation process?

Yes ( ) No ( )

11. The inadequacy of an updated database regarding the chances and requirements of private investments?

Yes ( ) No ( )

12. The lack of legal assurances for the stability and continuity of the process and that the change is for good?

Yes ( ) No ( )

13. The lack of credit facilities and loans to assist the private sector to take control of the recommended projects?

Yes ( ) No ( )

14. The existence of numerous administrative and control agencies, which will work against the progress of privatisation?

Yes ( ) No ( )

15. The widespread negative social perception of private businesses and those who are involved in them?

Yes ( ) No ( )

16. The lack of workshops, symposiums and conferences that seek to sort out problems and allow the exchange of expertise?

Yes ( ) No ( )

17. The existence of small local markets, which will not favour privatisation unless new opportunities for export arise?

Yes ( ) No ( )

18. The lack of comprehensive studies on the local markets, including consumer requirements, will not encourage private ownership?

Yes ( ) No ( )

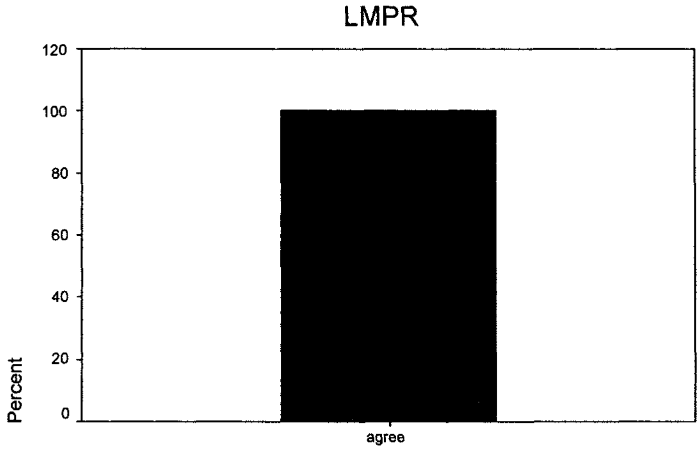
19. The inadequacy managerial expertise capable of taking responsibility for the success of the privatisation process through the transfer of public companies to private companies under the control of an efficient and active management?

Yes ( ) No ( )

20. The potential international risks and restrictions which are likely to limit the progress of the economy towards privatisation?

Yes ( ) No ( )

Appendix C Analysis of SPSS



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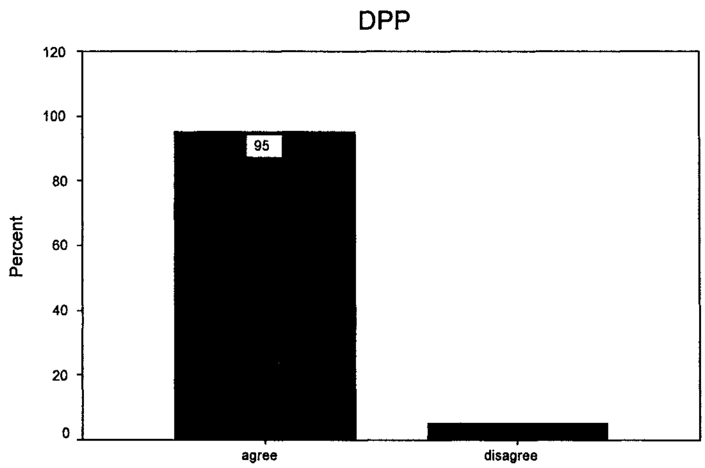

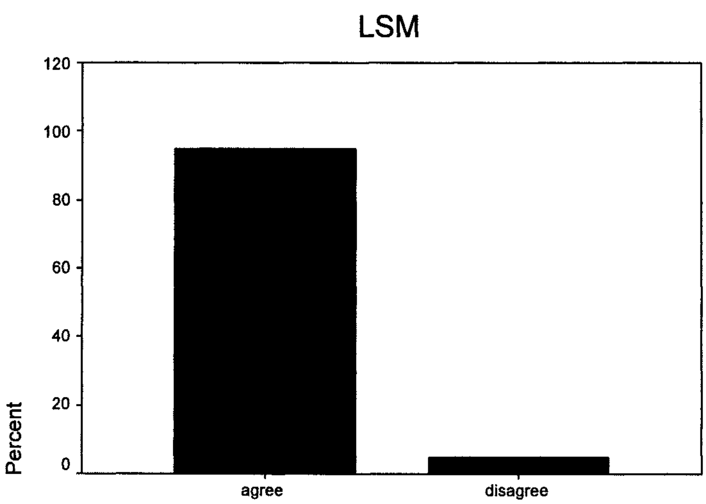

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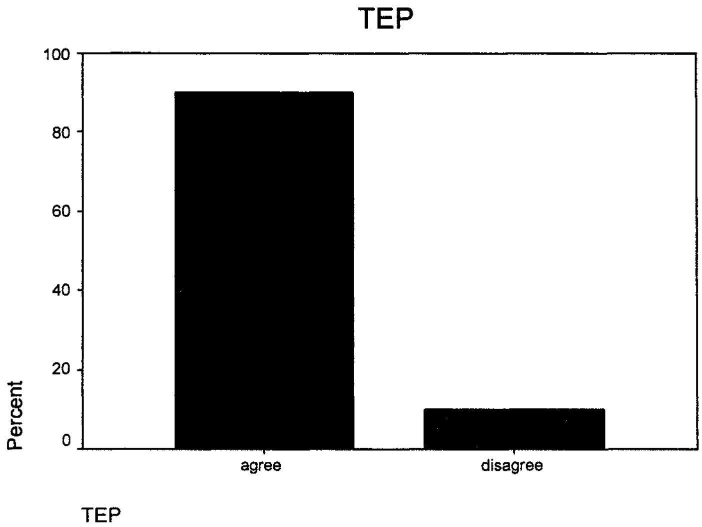
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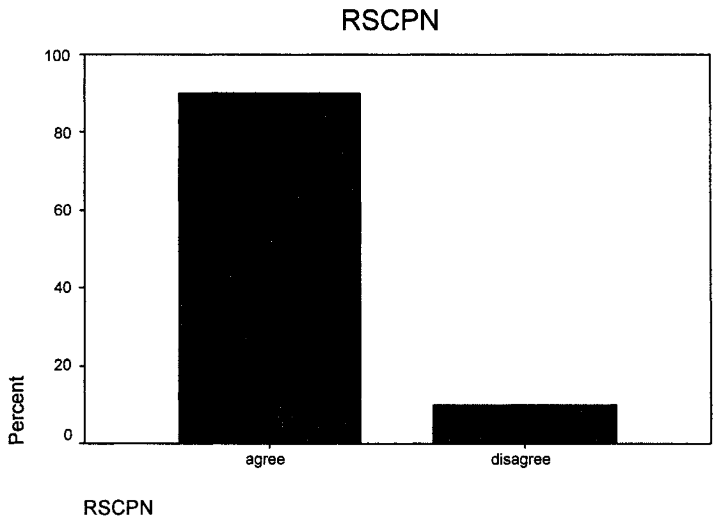
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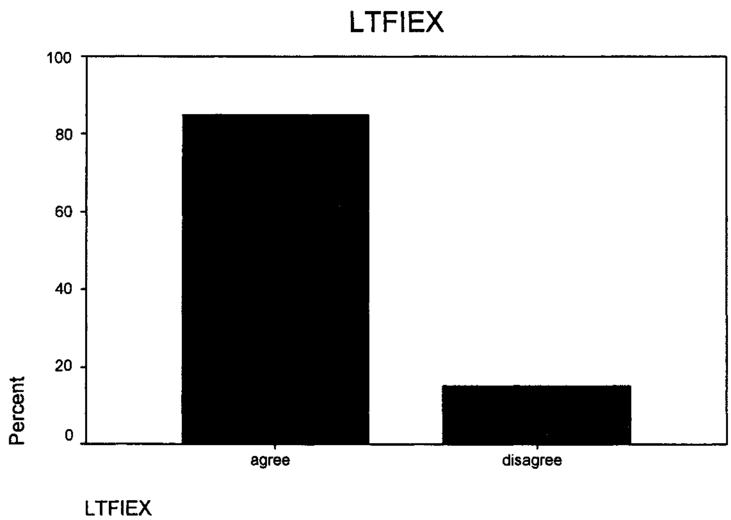
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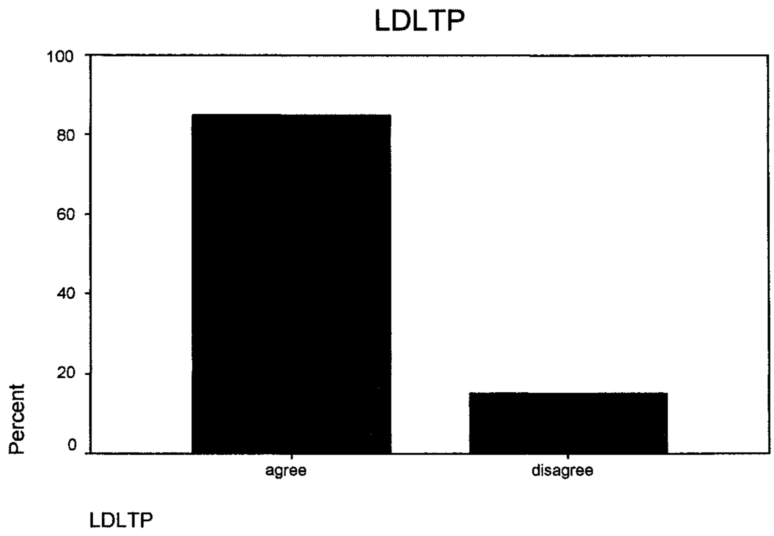
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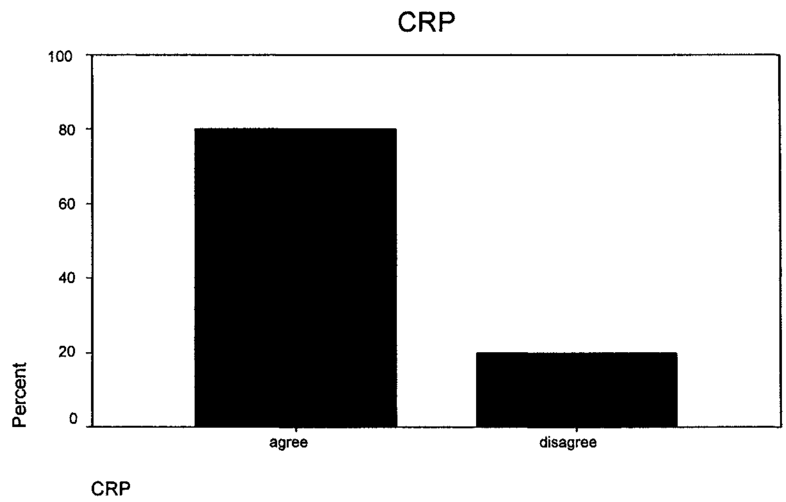
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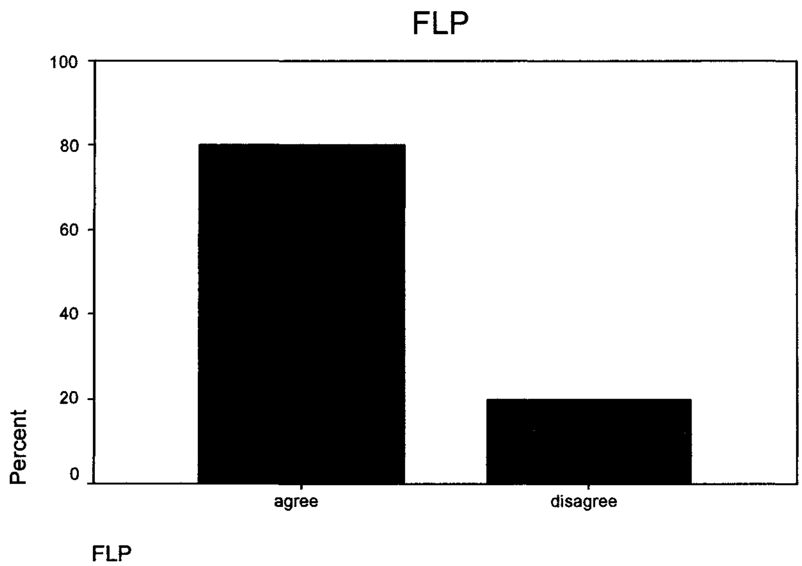
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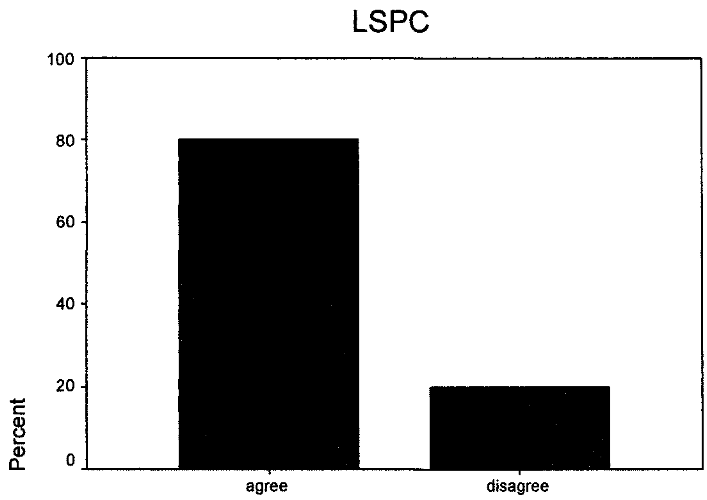

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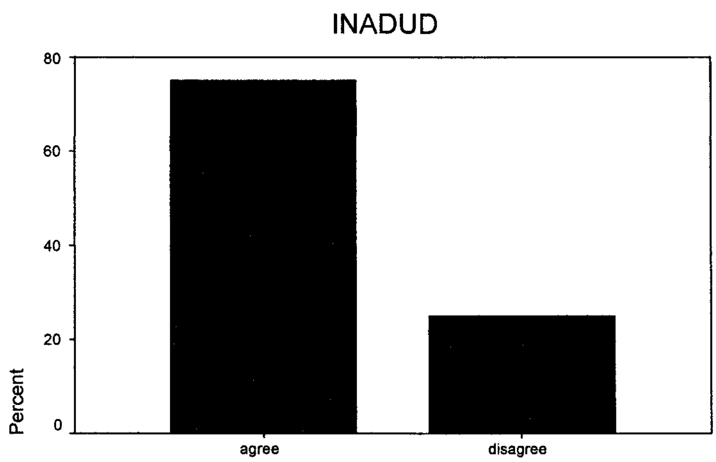

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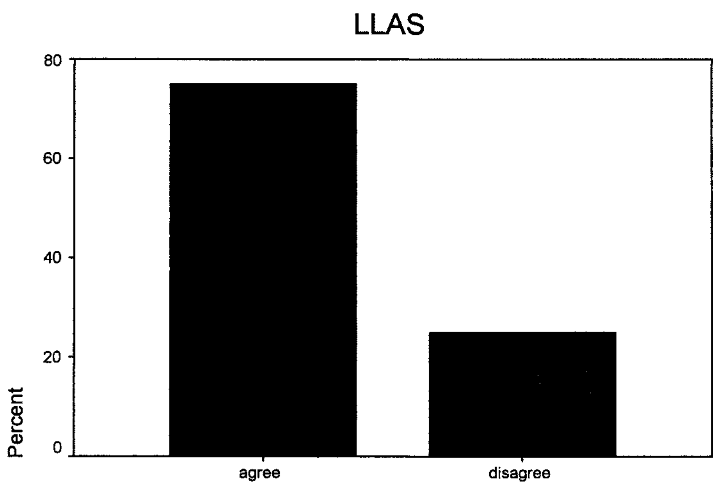

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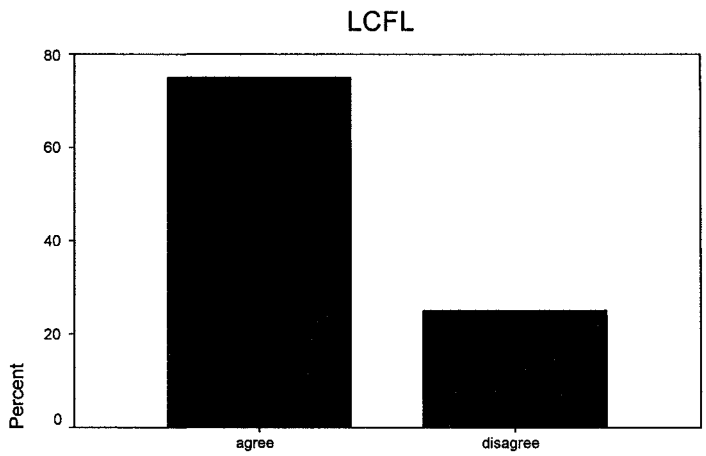

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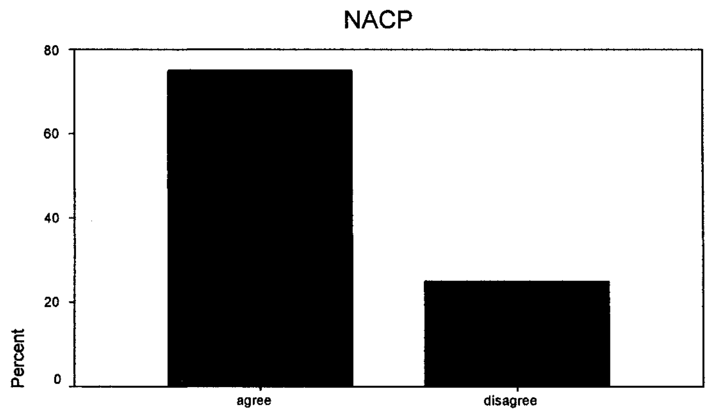

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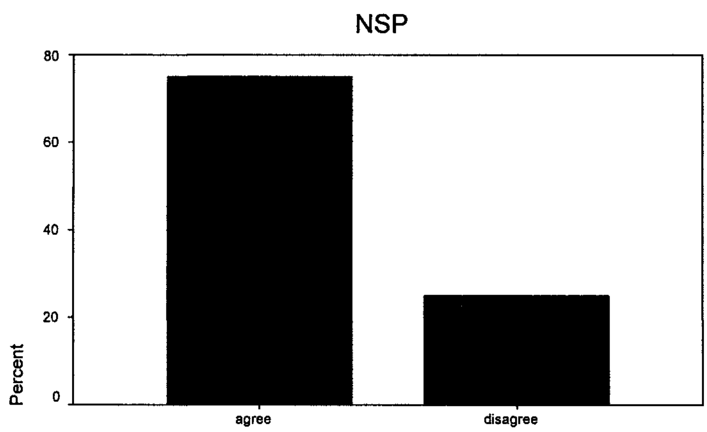

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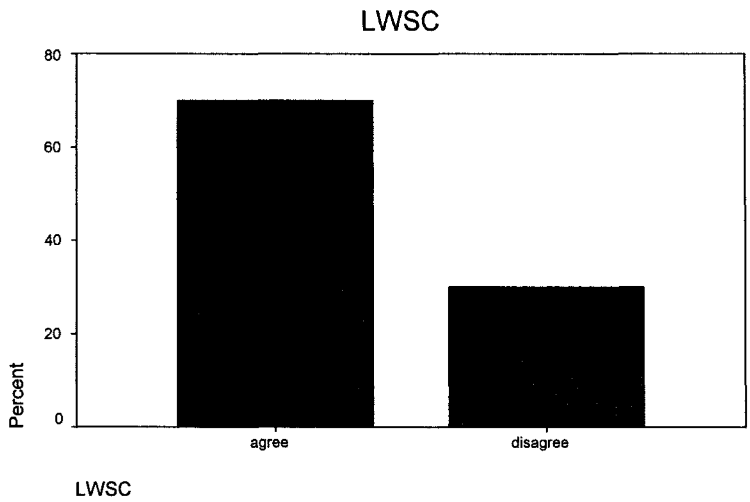
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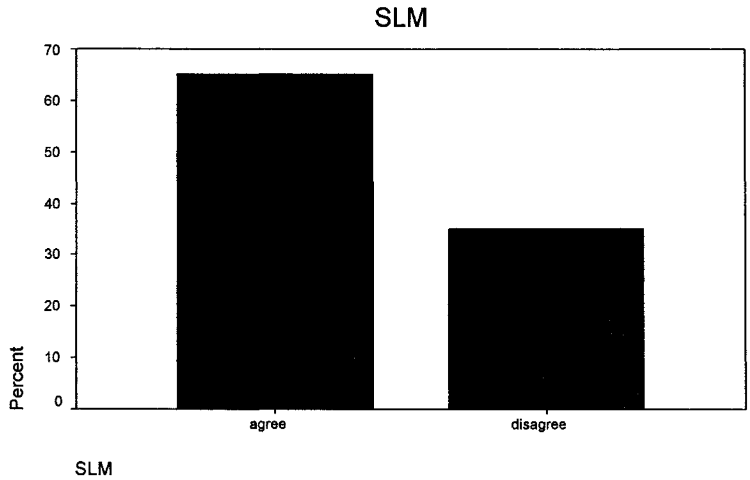
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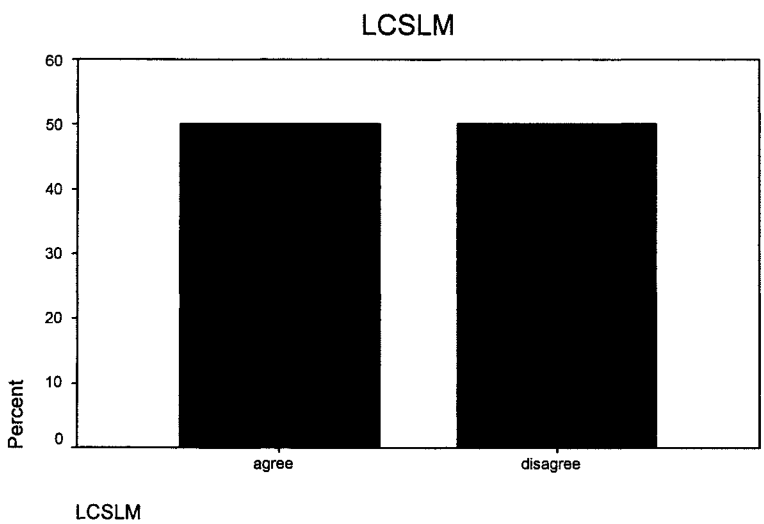
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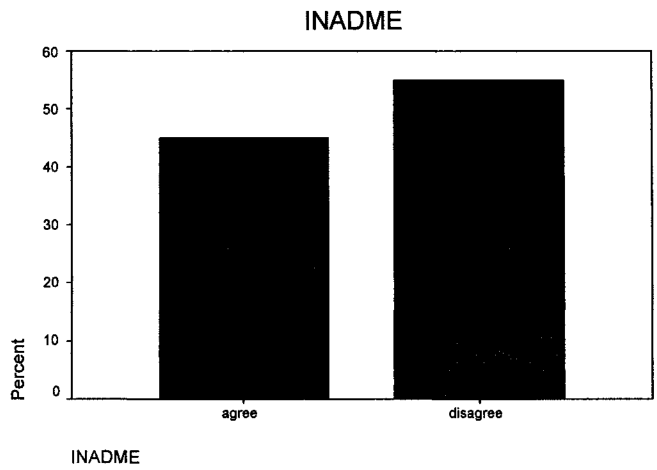
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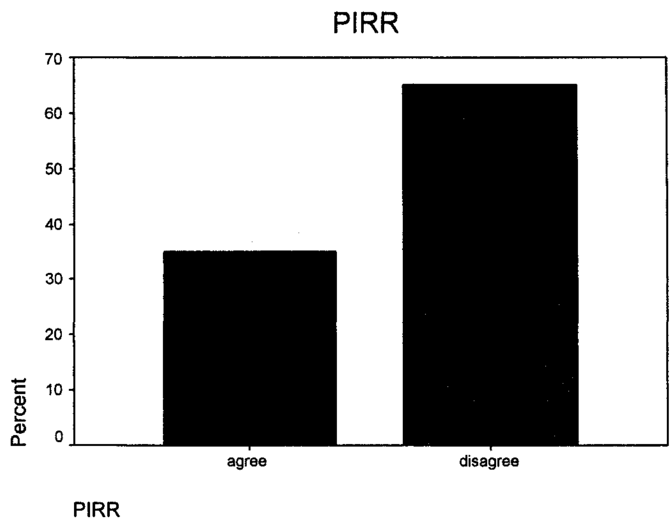
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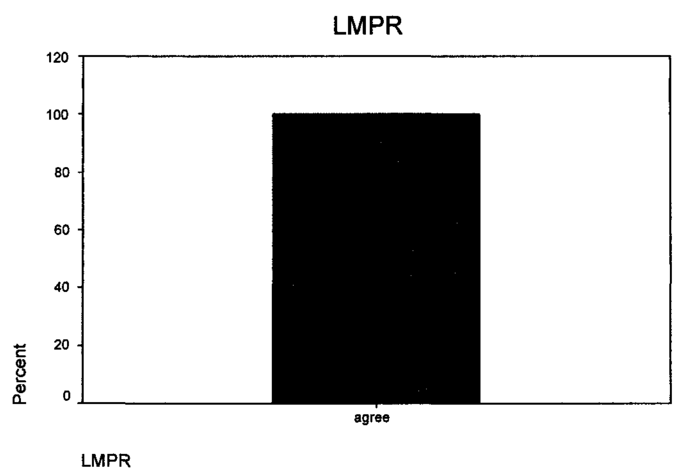
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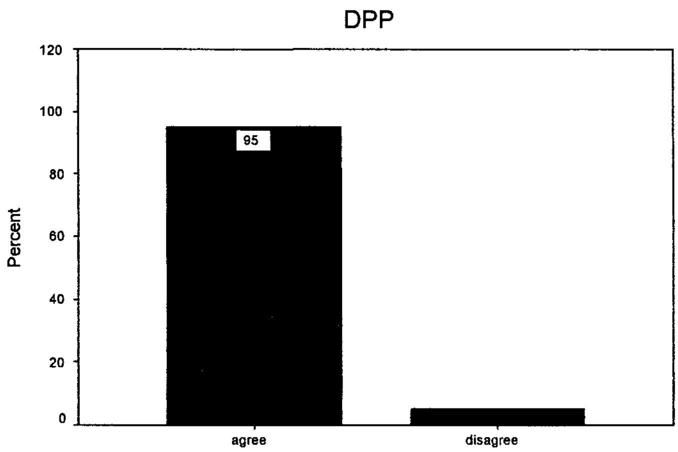
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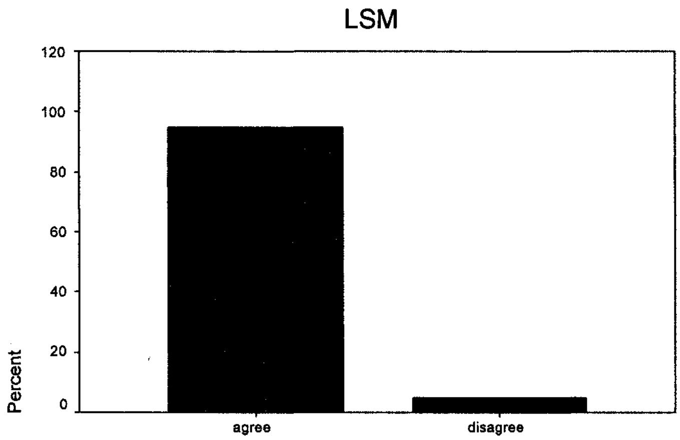
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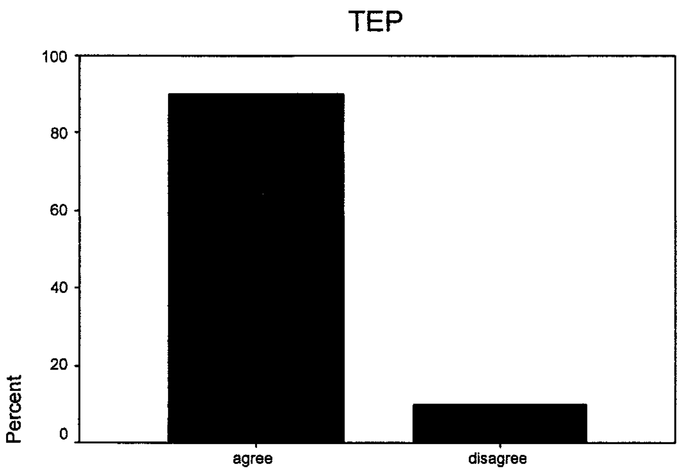
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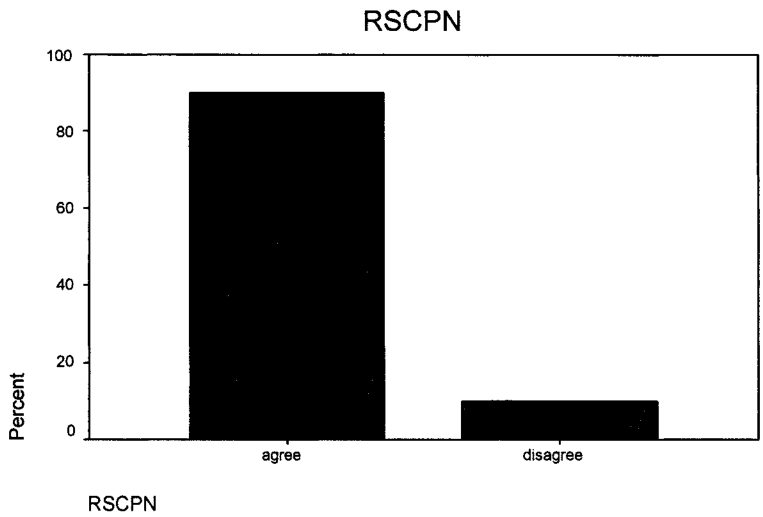
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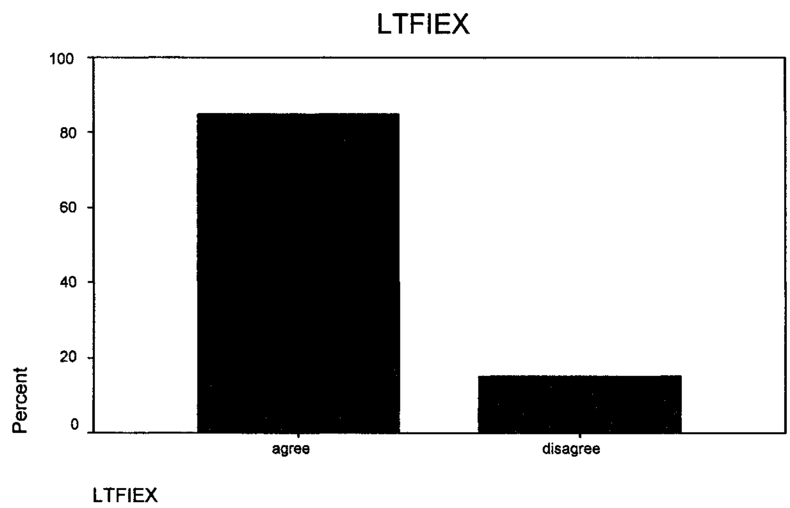
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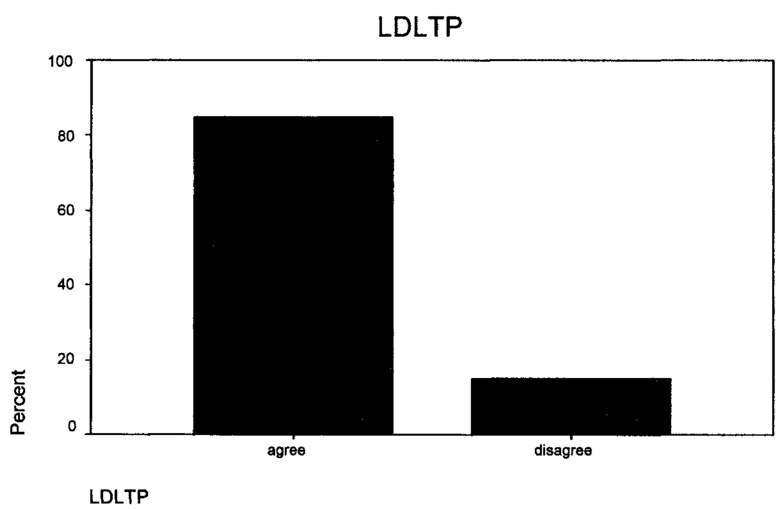
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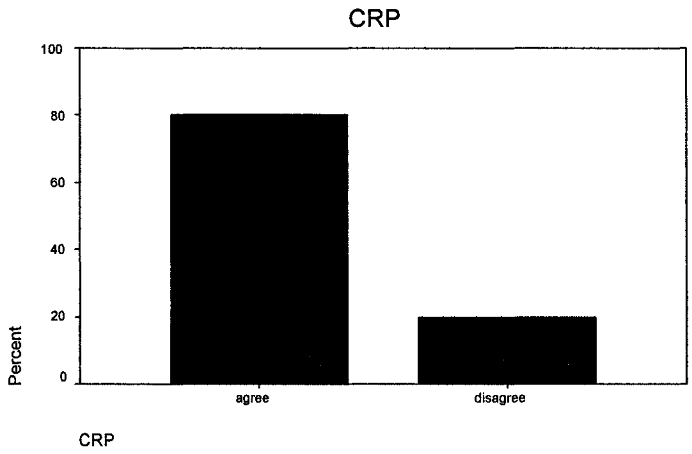
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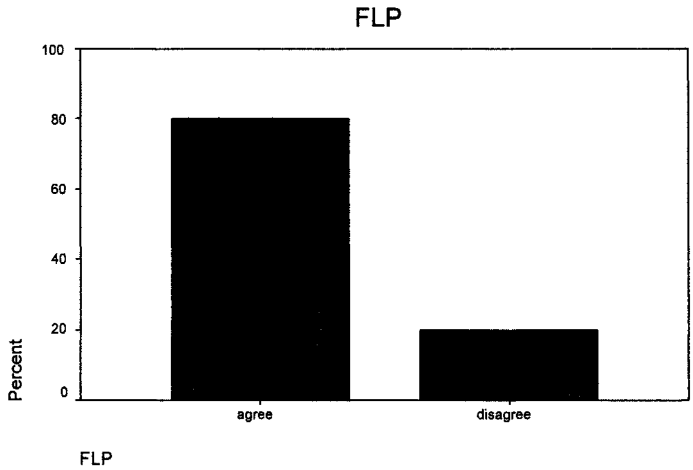
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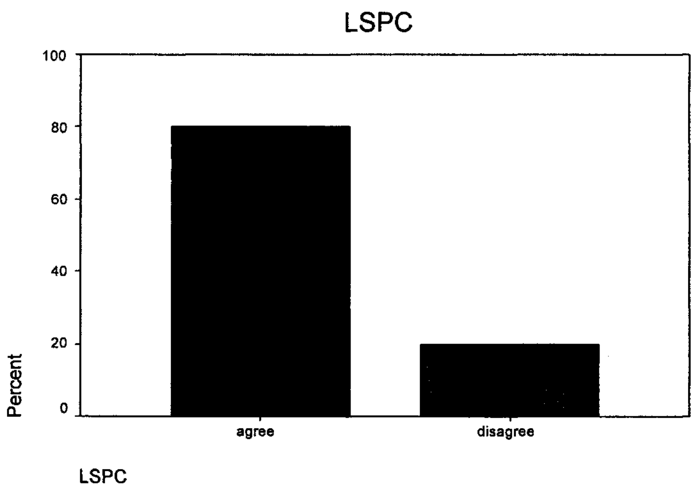
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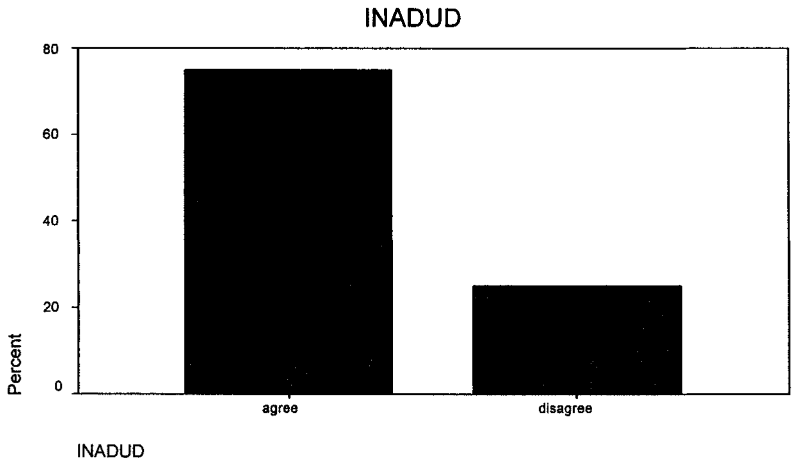
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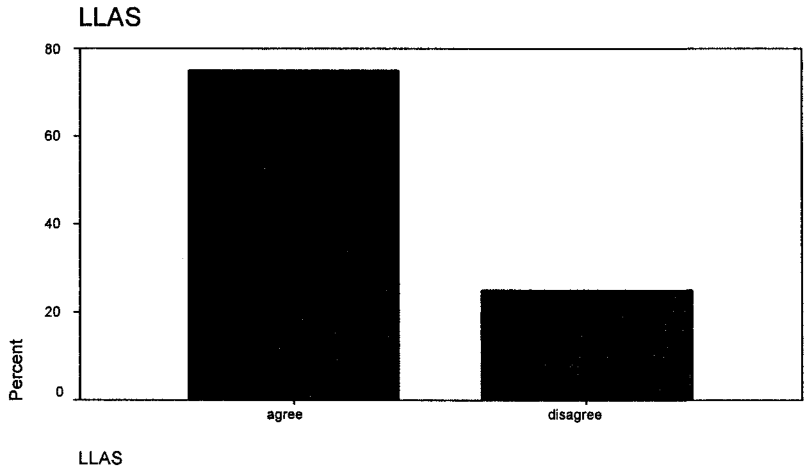
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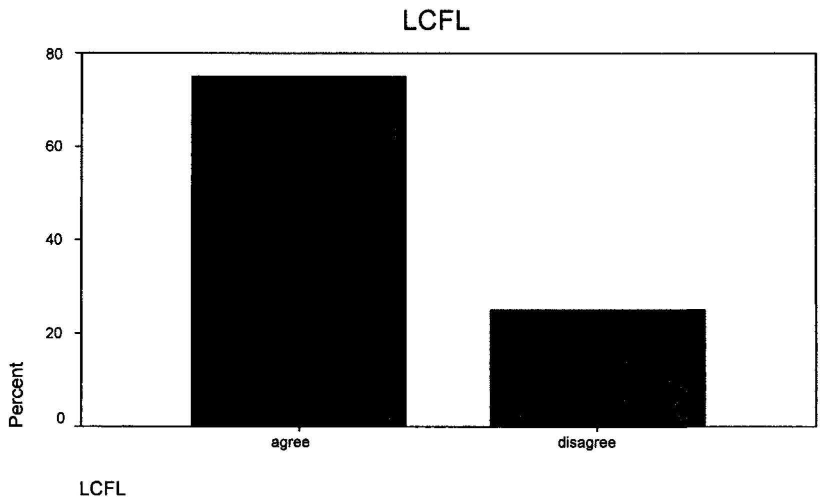
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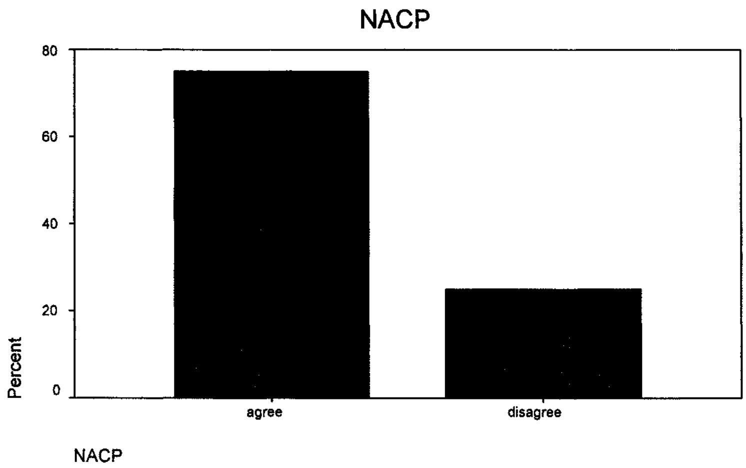
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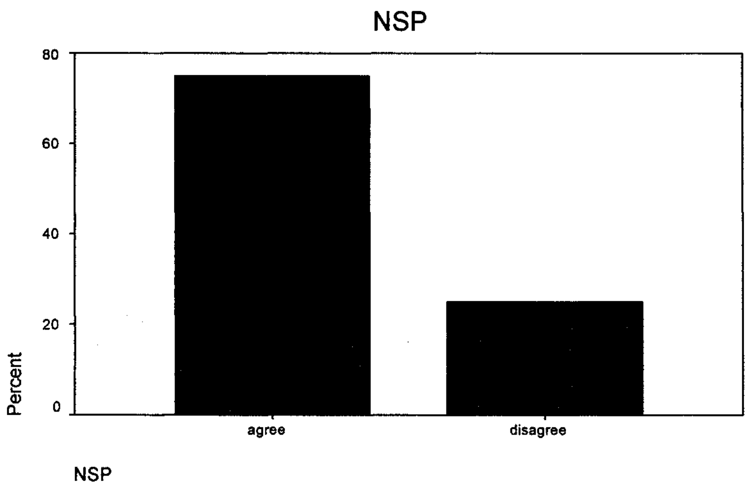
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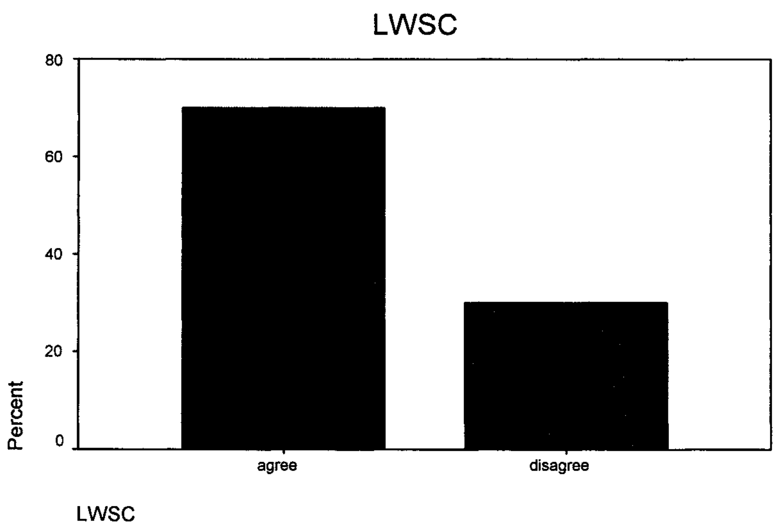
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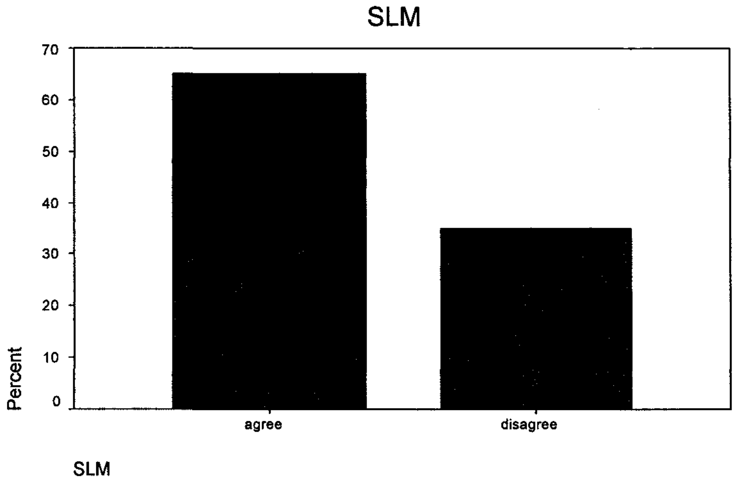
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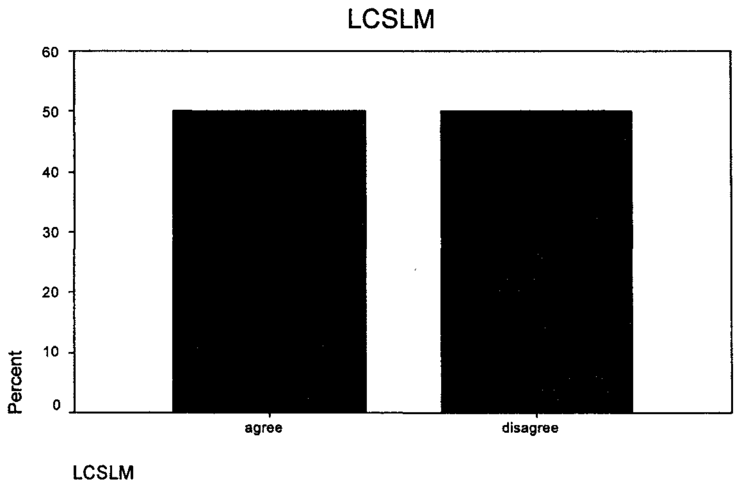
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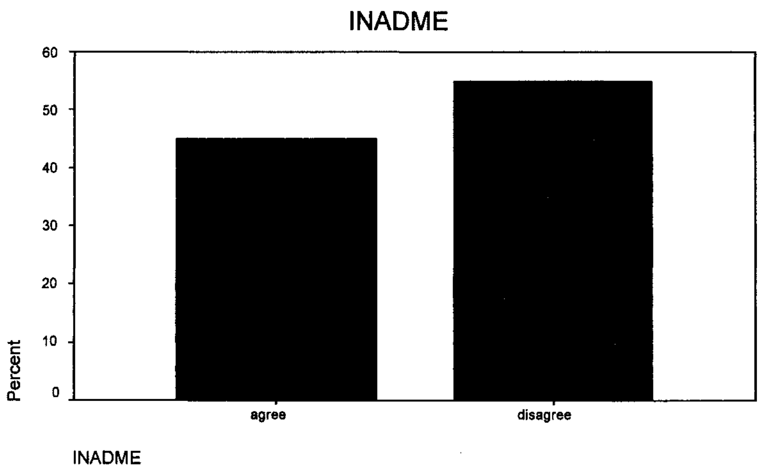
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